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HIGHBURY GROUP ON HOUSING DELIVERY

Briefing Paper 13: Property Wealth Taxation As An Aid To Housing Delivery

- A successful wealth tax is difficult to design
- There is potential scope to increase transaction taxes (e.g. Stamp Duty)
- Stronger rules on Inheritance Tax could reduce inequality in the housing market and generate funds for affordable housing.
- Together relatively modest reforms to Stamp Duty Land Tax and Inheritance Tax on principal residences could yield up to £10 bn. per annum which in turn could generate an additional 80,000 affordable homes a year
- This would reduce the Housing Benefit bill and help to achieve the Government's target of building 1.5m new homes over the life of this Parliament

Introduction

Wealth inequality must be reduced to achieve a just society. Property wealth inequality cannot be tackled in isolation to financial and pension wealth. An effective tax needs to be

- accurately assessed,
- easy to administer,
- difficult to avoid.

This briefing note considers direct recurrent taxes on wealth, taxes on gains in wealth, and transaction taxes.

Realistic and desirable policy objectives

Wealth after debt (net wealth) can be easily transferred between three main types, which for UK households in 2023 are Property at £3.8 trillion, Pensions[1] £3.6 trillion, and Financial assets at £3.5 trillion. Of the three, financial wealth is by far the most unequally distributed between households. Combined, we have seen an overall and steady reduction in net wealth inequality over the last century, though the decline has levelled off since 1980. Now the median household has a net wealth of £400,000, but very unequally distributed.

Changes to tax treatment need to be carefully designed to avoid shifting wealth to the least taxed type or even out of the country. For example, the proposed addition[2] of unused pension funds into Inheritance Tax assessments, could lead to more spending on housing assets.

[1] Buy to Let net wealth has been mainly allocated to Pensions.
[2] Autumn budget 2024 proposal

Direct taxation of wealth has not been a success in the past. Window Tax and Brick Tax had unintended consequences. Many OECD countries that created a wealth tax (12 by 1990) repealed them, leaving 4 by 2017, after finding little impact on inequality, as well as poor performance against the three taxation tests above. Denis Healey, Chancellor from 1974 to 1979, later said in his memoir: *"We had committed ourselves to a Wealth Tax: but in five years I found it impossible to draft one which would yield enough revenue to be worth the administrative cost and political hassle*."

Most countries have found that proportional spending taxes and progressive income taxes, including income from capital, combined with transaction taxes and death duties to be the most effective.

Capital Gains Tax is often quoted as a possible means to address accumulating wealth, and especially property wealth inequality, but in our current housing economy we are in a "post excessive growth" period that was fuelled by rising household incomes and reducing interest costs from the 1980s to 2004. House prices in the last 15 years have remained flat, after adjustment for RPI[3]. Consequently, a CGT properly adjusted for inflation, and asset purchase and improvement costs, would now yield little revenue.

But we can't stop there even if these are cul-de-sacs. We have a growing problem of unequal distribution in our home ownership markets and that is caused by growing housing equity that is concentrated by family and passed down through the generations. Not only do we have inter-generational difficulty in accessing home ownership but also intra-generational inequity. We have the next 20 or 30 years to tackle this – a generation. Two options are discussed below.

How desired policy objectives can be achieved in the present circumstances

We have two taxes which can help. The first is **Stamp Duty Land Tax a**nd the second is the ultimate transaction tax – **Inheritance Tax.**

Stamp Duty Land Tax

SDLT is, and can be made more of, a progressive tax. It seems logical that this is a bad tax; that it will dampen transaction rates and hence create inefficiencies in the market. That may well be true for Stamp Duty Reserve Tax for buying shares on the stock market. UK tax seems to be making the London Stock Exchange uncompetitive compared to stock markets in other countries. However, no evidence has been found that SDLT reduces housing transaction rates when comparing properties below the SDLT threshold with those that are taxed. The drivers for buying and selling (household formation etc) are much, much, stronger influences.

More research is needed on this counter-factual on transaction rates, and if true **it is possible that the market could bear a 50% increase in tax take on the proposed April 2025 SDLT rates if concentrated above the median house price**. **That could generate an extra £5bn per annum and be effective on the three taxation tests above.**

Inheritance Tax

At present the UK tax regime gives **substantial IHT allowances** for principal residence houses and flats that are passed to children and grandchildren where estates are below £2m. **Eliminating these**

[3] ONS RPI and ONS Average House price for England June 2010 to June 2024

allowances would not be popular, but more than 60% of the family net housing wealth would still be available for the next generation(s).

An estimate is that this **could generate another £5bn a year**, even allowing for some potential shift of family housing wealth, later in life, into Financial and Pension Assets. And that would not be such a bad thing, as in itself it would encourage downsizing and hence better use of existing stock. Again, this is a tax that passes the three taxation tests. above

Conclusion

The above relatively modest reforms to property taxation could generate a combined extra resource of **£10bn a year of public subsidy which in turn could be used to increase affordable housing stock, through newbuild supply and through acquisition of existing stock, by 80,000 dwellings a year.**

A programme boosted by that quantum could substantially reduce the use of PRS stock by no-to-low-income households, not only improving conditions, and also by cutting the massive Housing Benefit spend on private sector rents of £16bn[4] in 2023.

Selected sources

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Pete Redman Director HFL predman@hfl.org.uk

[4] Chartered Institute of Housing UK Housing Review 2024 Tables 111a UC and 113 HB