

# Housing and Taxation

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# Why discuss tax ?

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- ❑ 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
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# Housing supply factors

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- The central factors in most policy reports on Housing Supply;
  - For example Barker 1 and Barker 2 . Lyons, Housing White Paper
  - Supply of investment (public and private)
  - Planning policy (affordable housing targets)
  - Construction capacity
  - Public sector capacity and competence
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# More recent focus

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- Land supply ( and Green Belt release)
  - Planning gain and development viability
  - These two can be taken together. Focus of work of Highbury Group on Housing delivery ( and my Housing Studies Association presentations over last 3 years).
  - Focus of group's work has recently shifted to impact of tax policy – tax on land and tax on housing
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# Theoretical contexts

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- ❑ 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
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# The historical debate over land

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- ❑ Public ownership ( all land OR development land)
  - ❑ Taxation of capital value ( either all land or related to value uplift)
  - ❑ Nationalisers versus Georgites
  - ❑ Long history dating back to split in Chartist movement in 1850's
  - ❑ See 2004 HSA presentation and The Radical and Socialist Tradition in British Planning (esp: chapters 7,9 and 11)
  - ❑ Public ownership much more effective than taxing private ownership and development as it allows public sector control of use, price and access to completed development and use of any capital gain
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# Research proposal

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- 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.
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# Wealth in residential property

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- ❑ 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
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# Purposes of taxation

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- 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
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# A Tax to raise resources to fund services

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- ❑ 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
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# B Taxes for redistributive/ equalising purposes

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- ❑ 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.
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## C Taxation to incentivise effective use of land and property

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- 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.
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## D Utilitarian taxes aimed at maximising public benefit

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

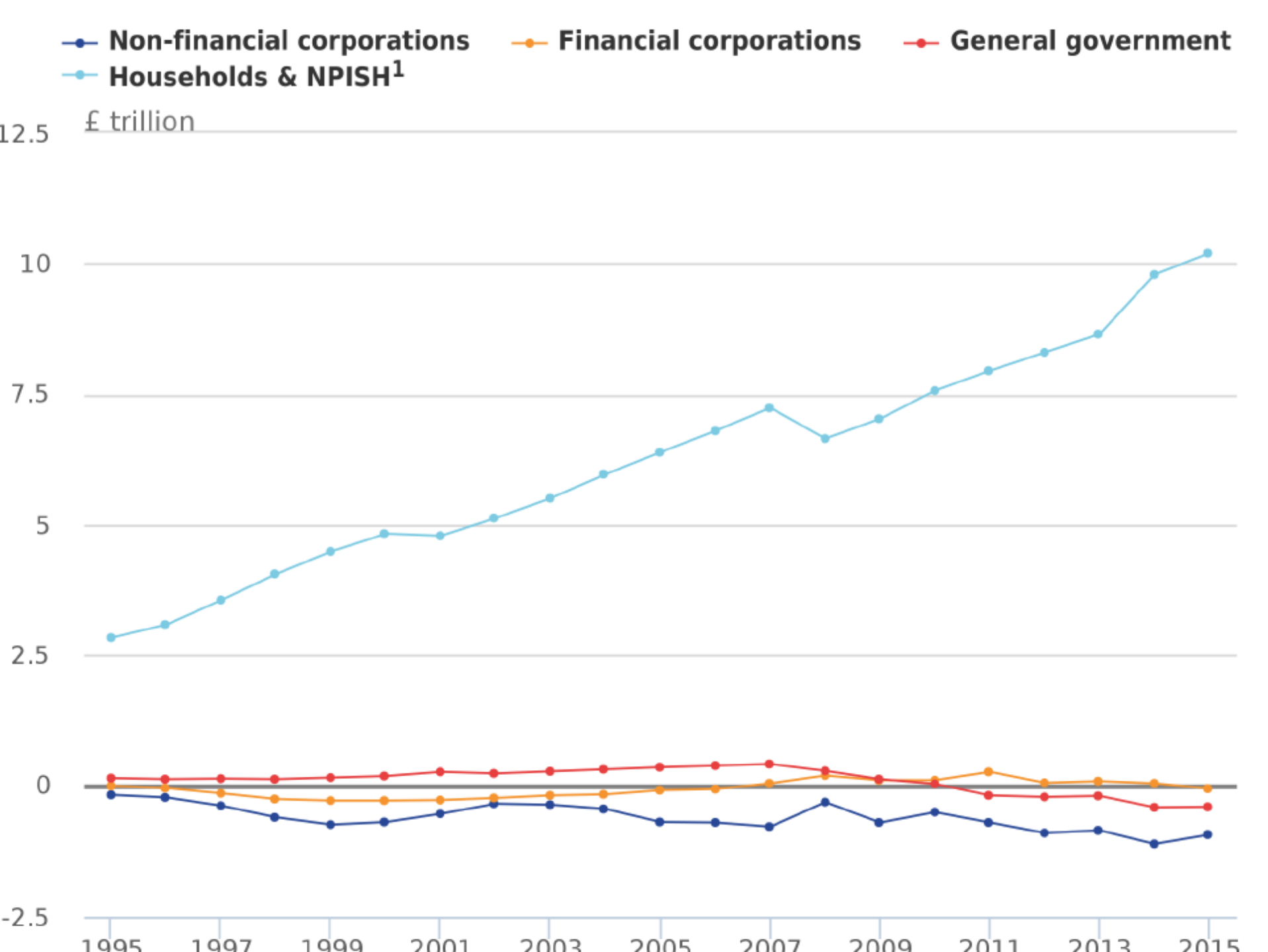
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- ❑ Different taxes have different objectives. Need to be clear what purpose of each tax is before assessing potential impact/ contribution toward objective or objectives.
  - ❑ Specific taxes generally do not meet all 4 criteria – can meet one or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

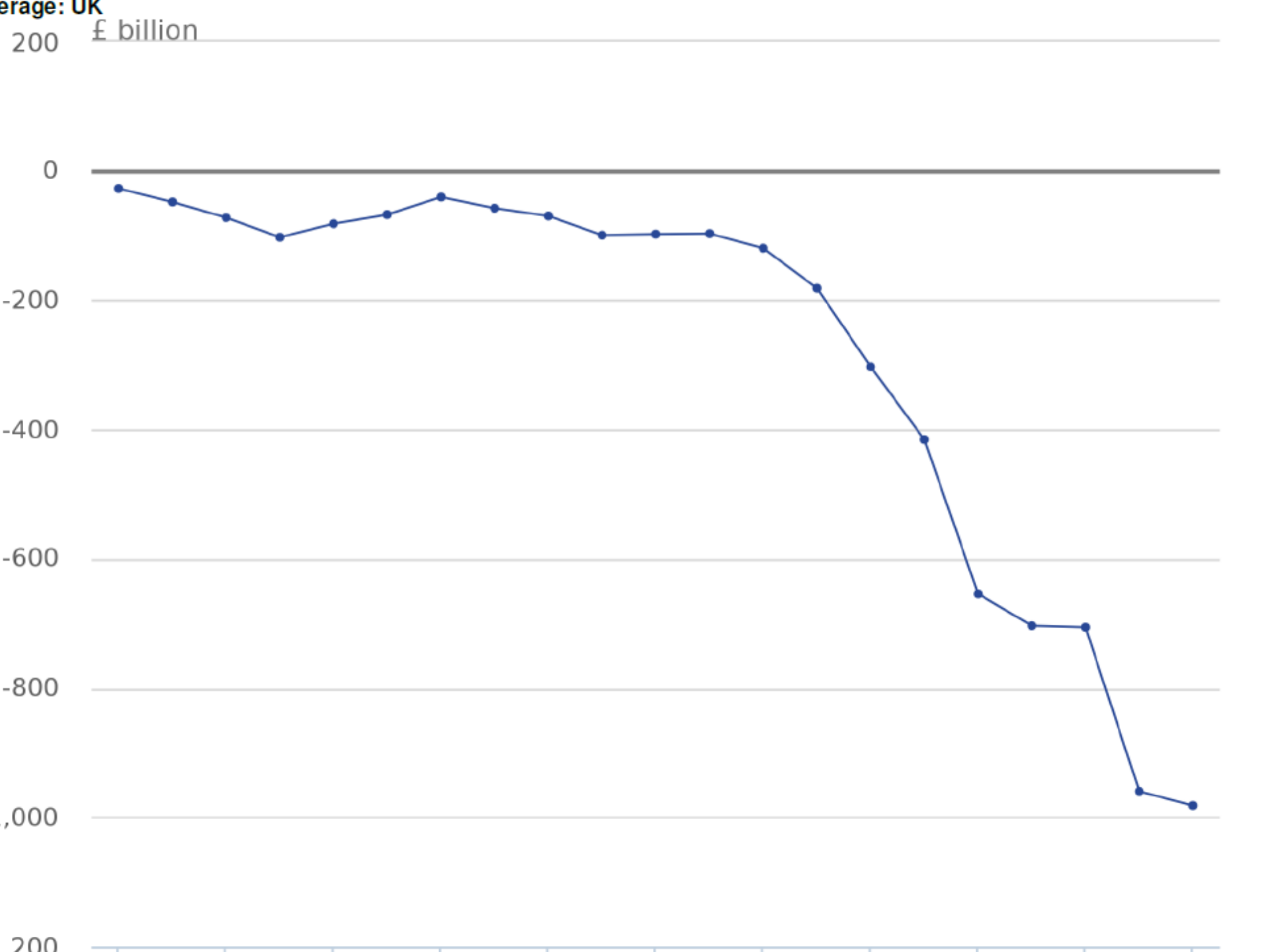
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verage: UK

£ billion



1995 2005 2015

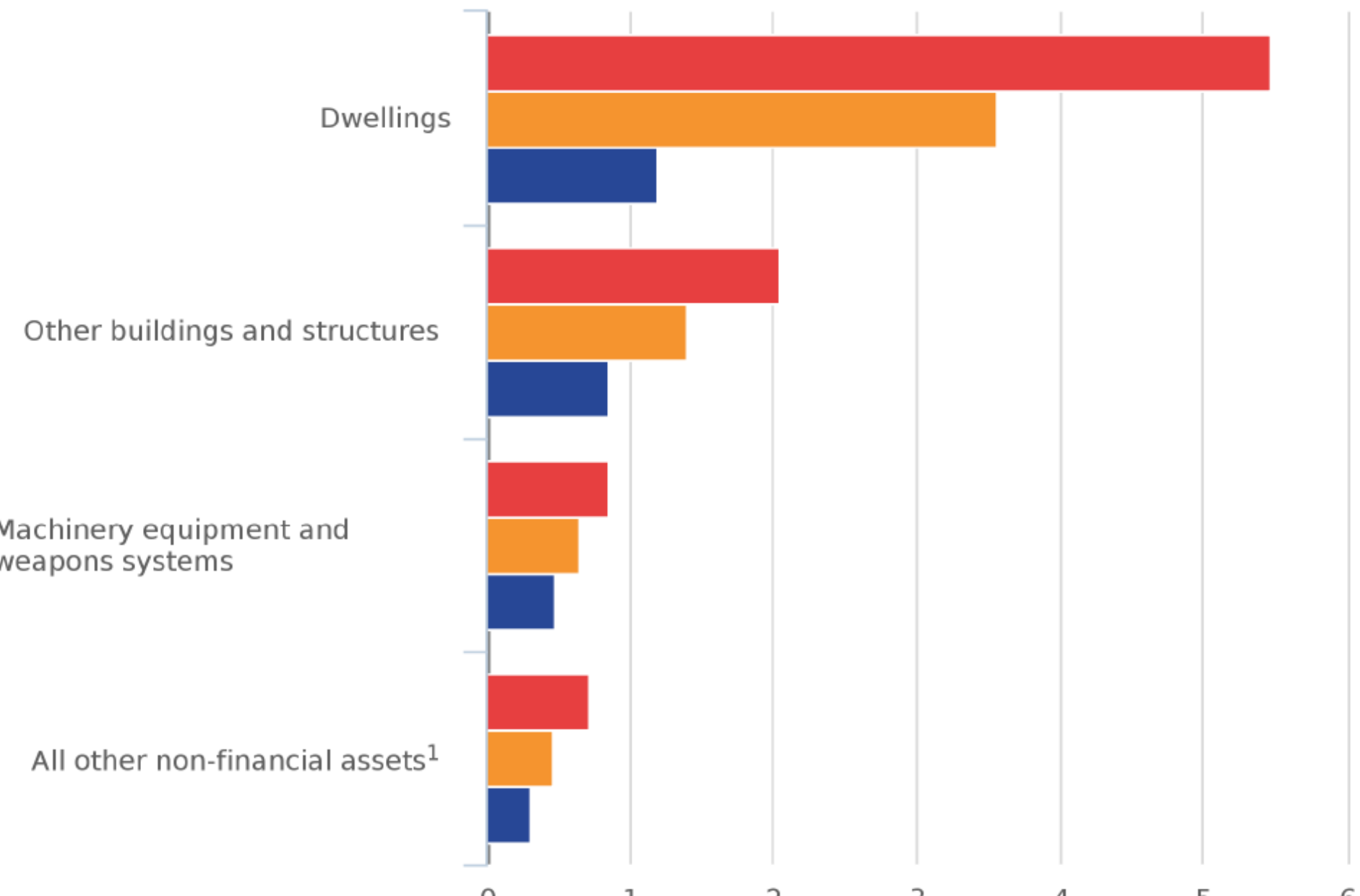
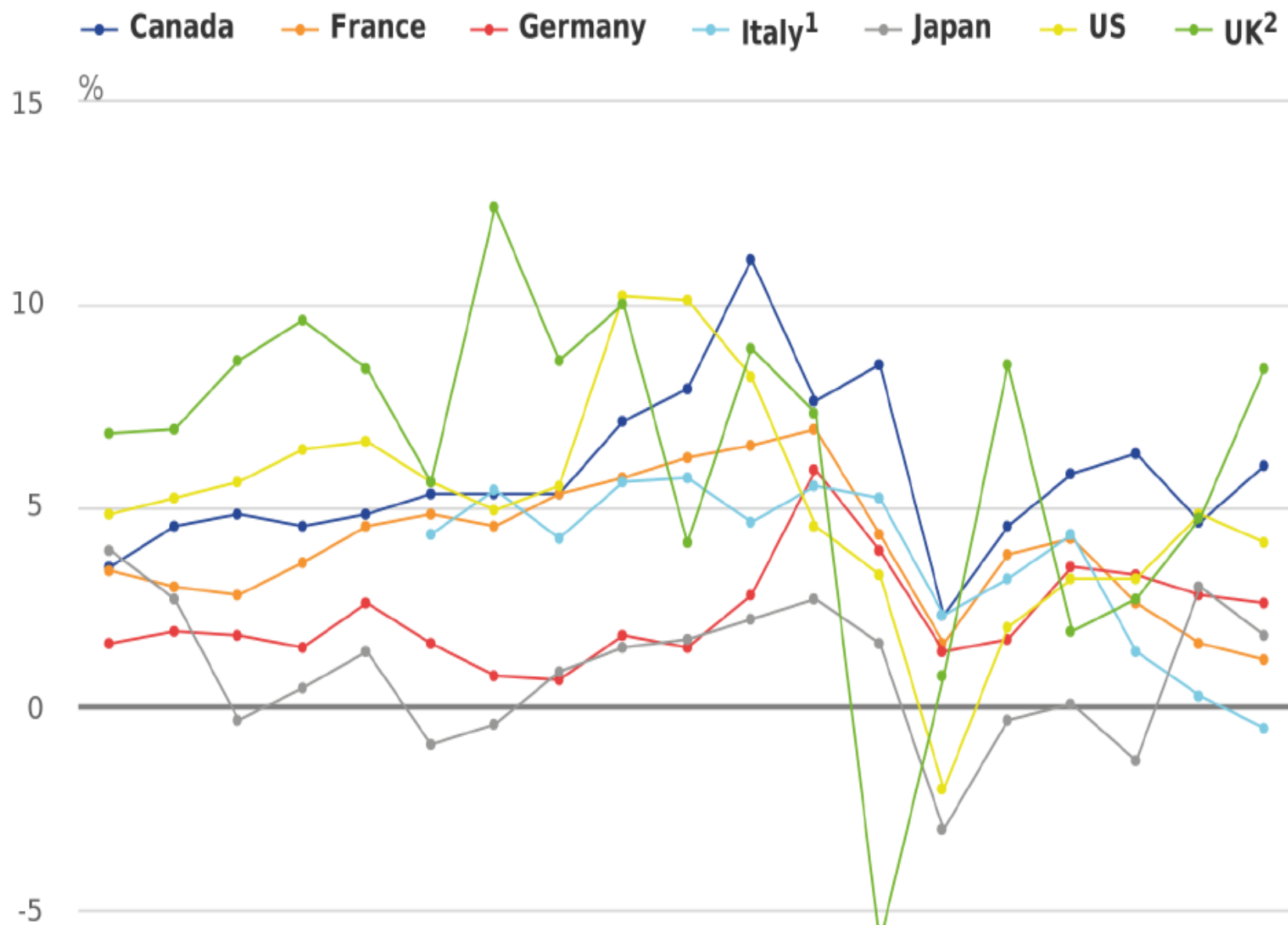


Figure 5: Annual growth rates of produced fixed assets for the G7 countries, 1996 to 2014



# Savills analysis of UK housing stock

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- ❑ Total Value of UK Housing Stock exceeds £6tn for the first time (£6.17tn), +£385bn in 2015 and +£1,156bn in 3 years
  - ❑ Housing wealth stands at £4.84tn, net of mortgage debt, or 2.7 times GDP
  - ❑ Owner occupiers with no mortgage: total property wealth exceeded £2tn for the first time (£2.097tn)
  - ❑ Private rented sector: total value now £1.29tn, up 55% in 5 years (with number of homes in the sector +28%); net wealth passed £1tn in 2015, overtaking that held by mortgaged owner occupiers for the first time (£1.077tn vs £1.067tn)
  - ❑ Total value of homes in London exceeds £1.5tn for the first time (£1.612tn), accounting for more than a quarter of the total value of housing stock in the UK and having risen by £589bn in 5 years
  - ❑ South of England: total value growth (+£179bn) exceeded London growth (+£126bn) for the first time in 5 years
  - ❑ Bristol shows the biggest increase in total housing stock value (+£4.5bn to £44bn) outside London
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# 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

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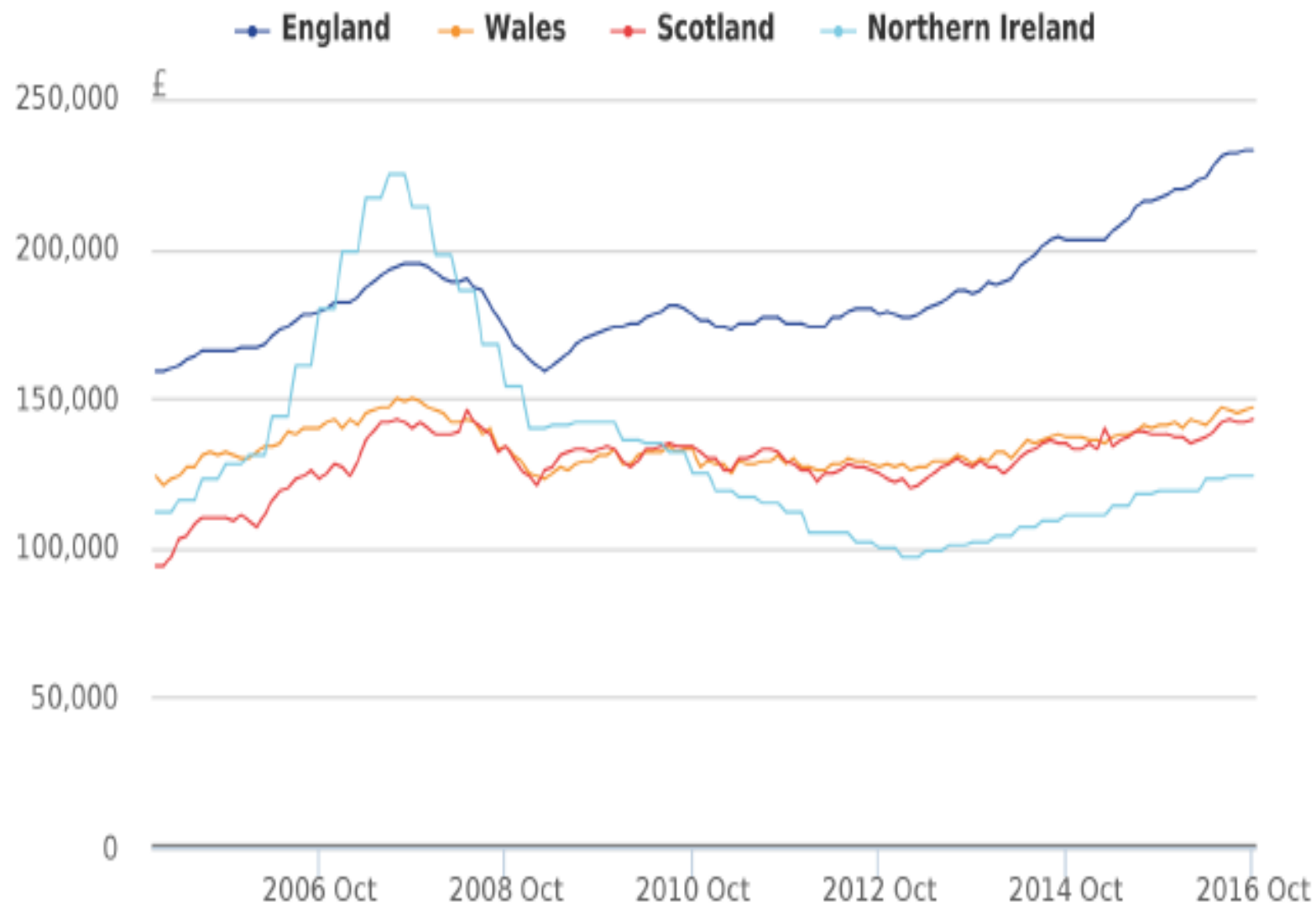
Inequity generated by house-price  
inflation and asset appreciation by  
property owners

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**Figure 2: Average UK house price, January 2005 to October 2016**

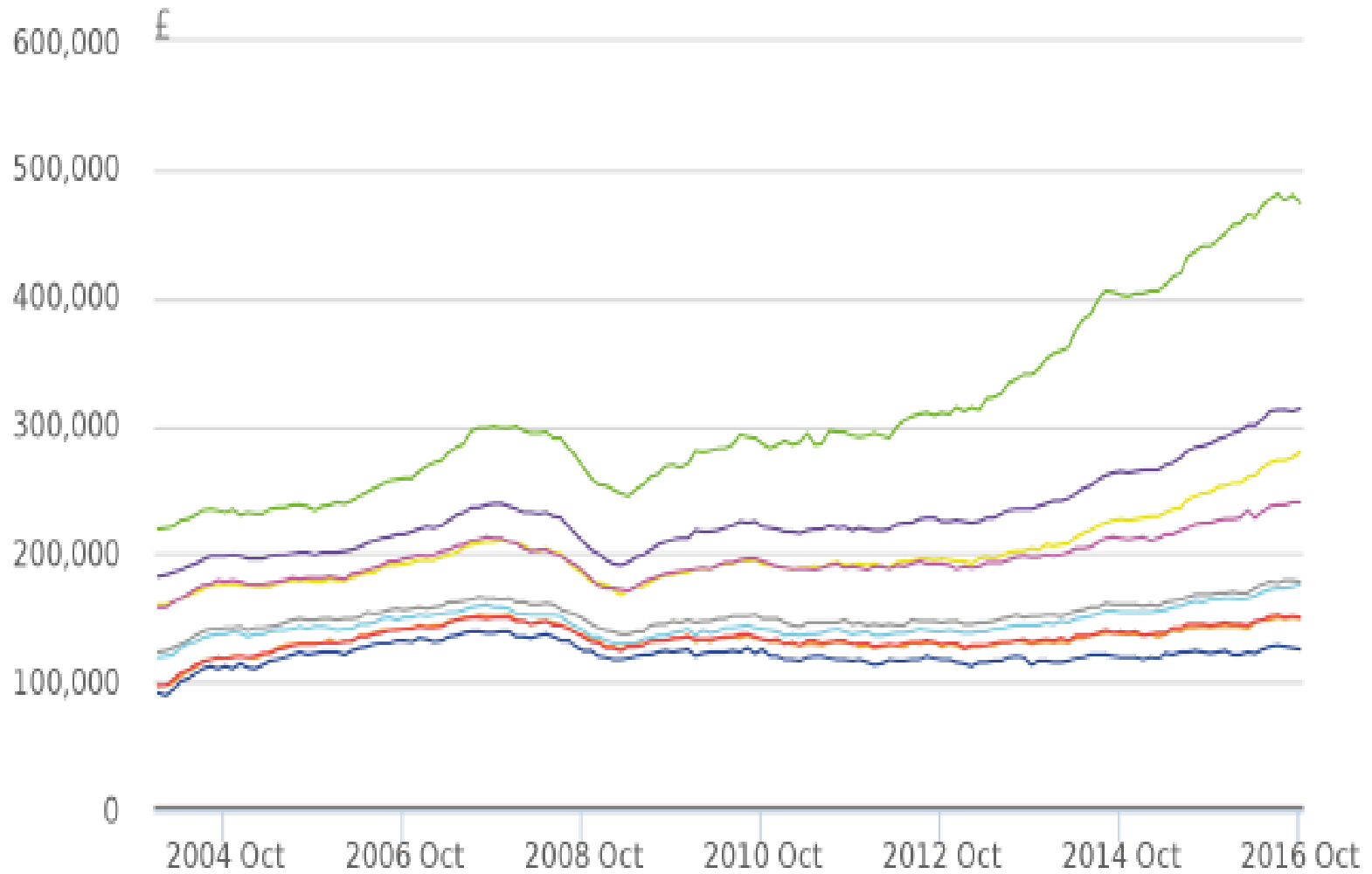


Figure 3: Average house price, by UK country, January 2005 to October 2016





North East North West Yorkshire and The Humber East Midlands  
West Midlands East London South East South West

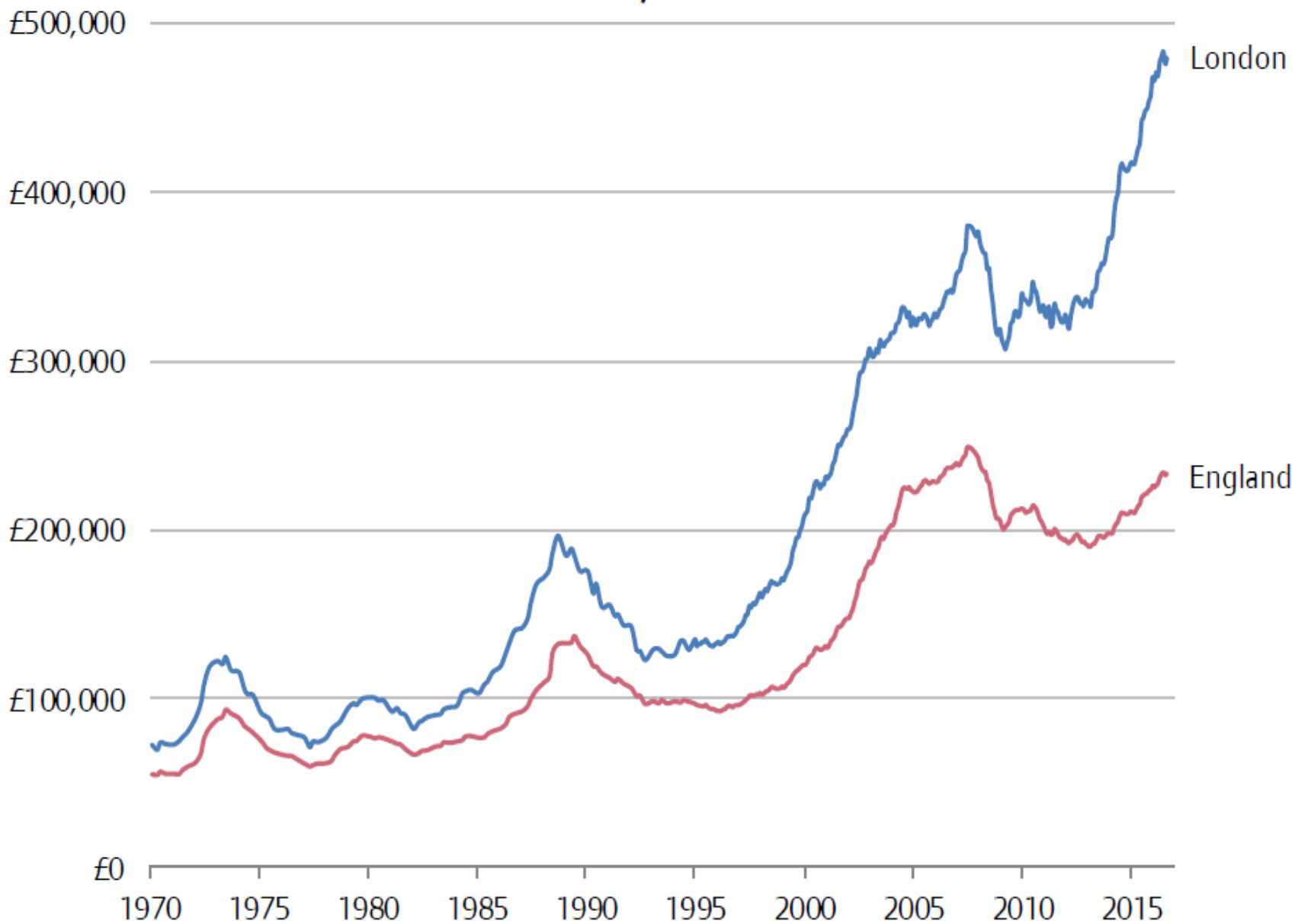


# London house-prices

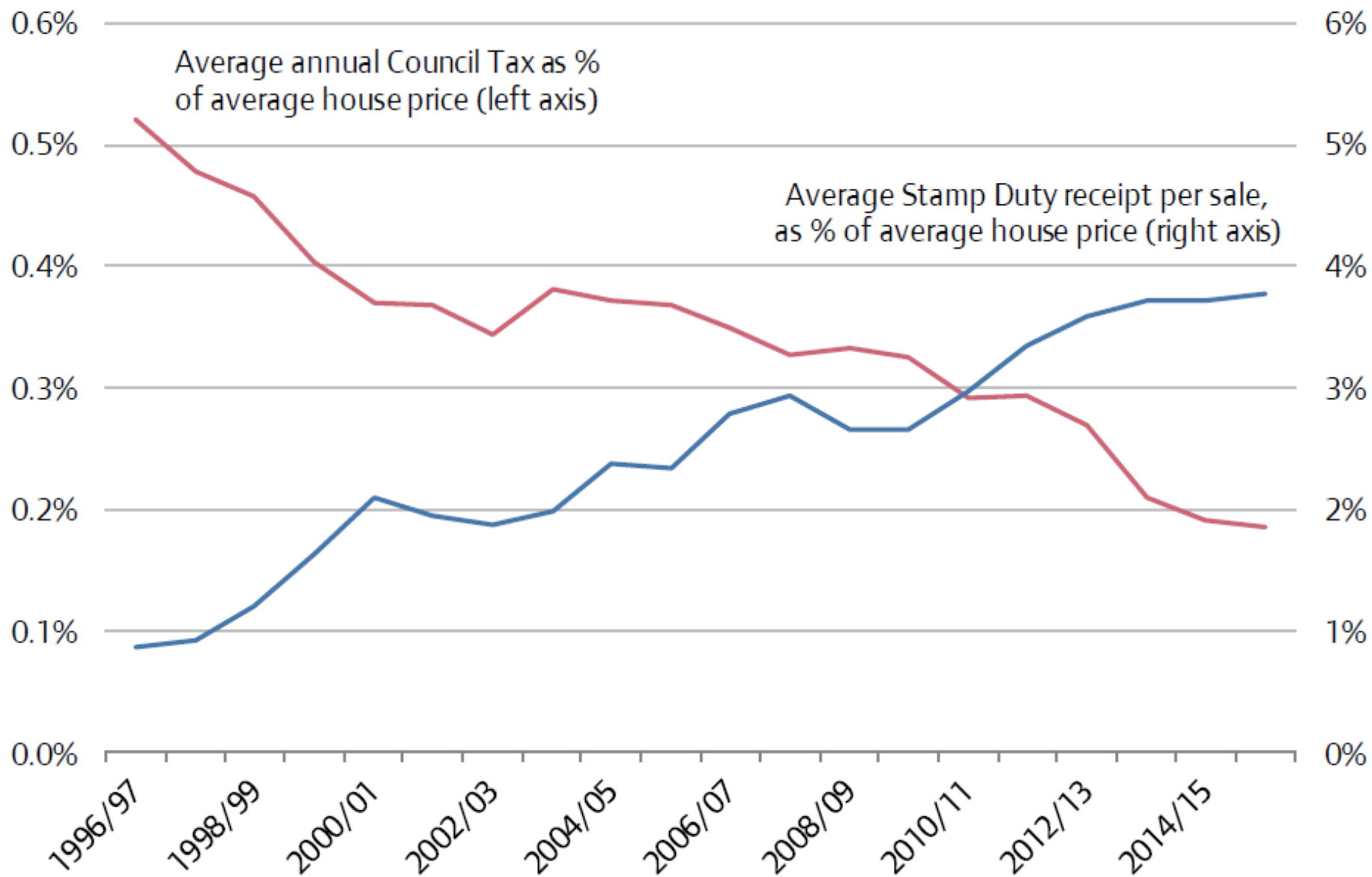
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- In 1996, London was just coming out of the recession-before-last. The average home cost £79,000. Today prices have jumped 518 per cent to an average £488,908.
  - Wages have failed to keep pace with this leap. In 1999 the average Londoner earned £22,487, compared to an average £36,302, a 47 per cent increase. Which means property prices have risen more than 11 times as fast as incomes, locking many Londoners off the property ladder
  - Focus not just on affordability for prospective purchasers but on asset appreciation of home owners
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**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

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- ❑ 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)
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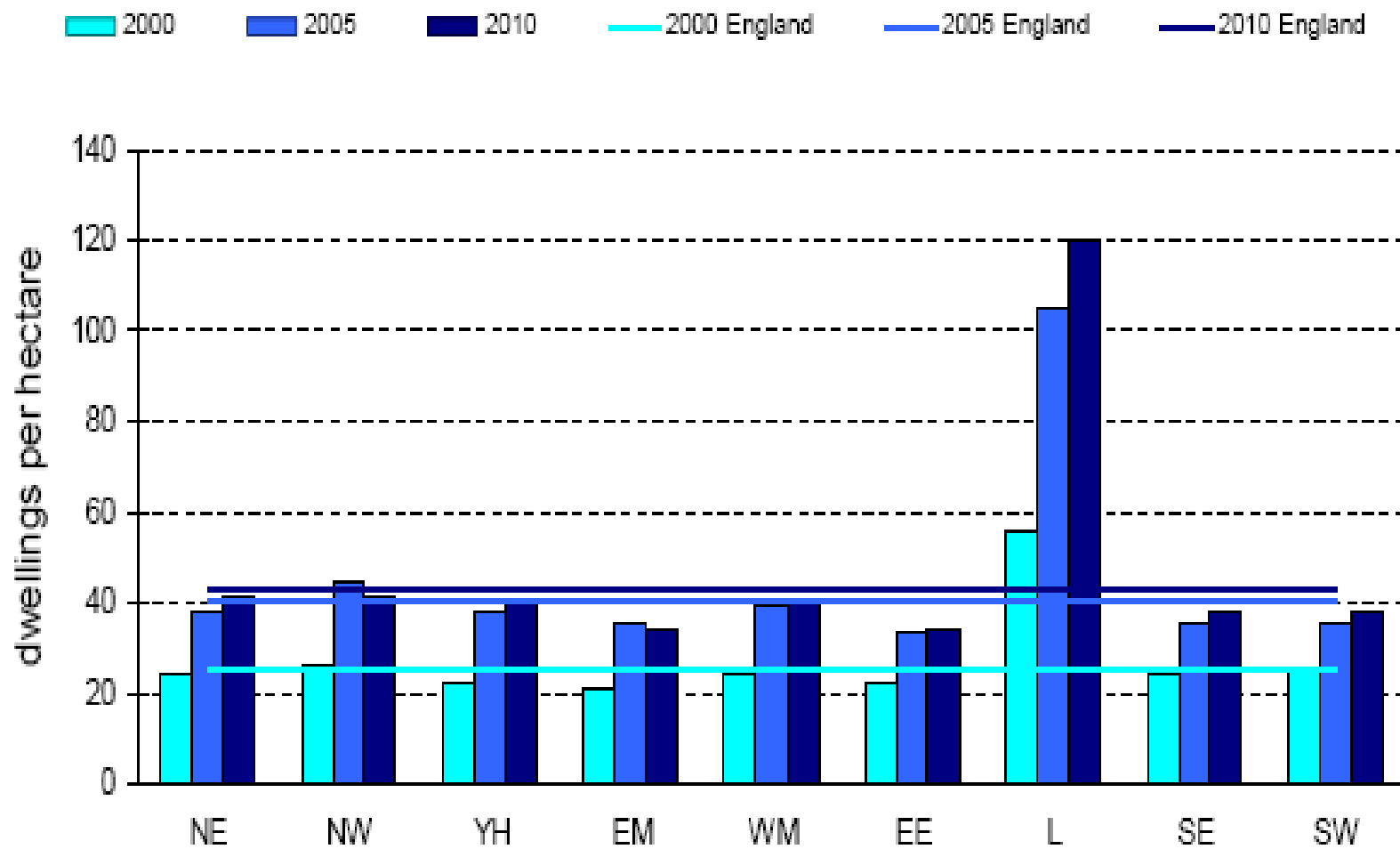
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# Ineffective use of land and capacity

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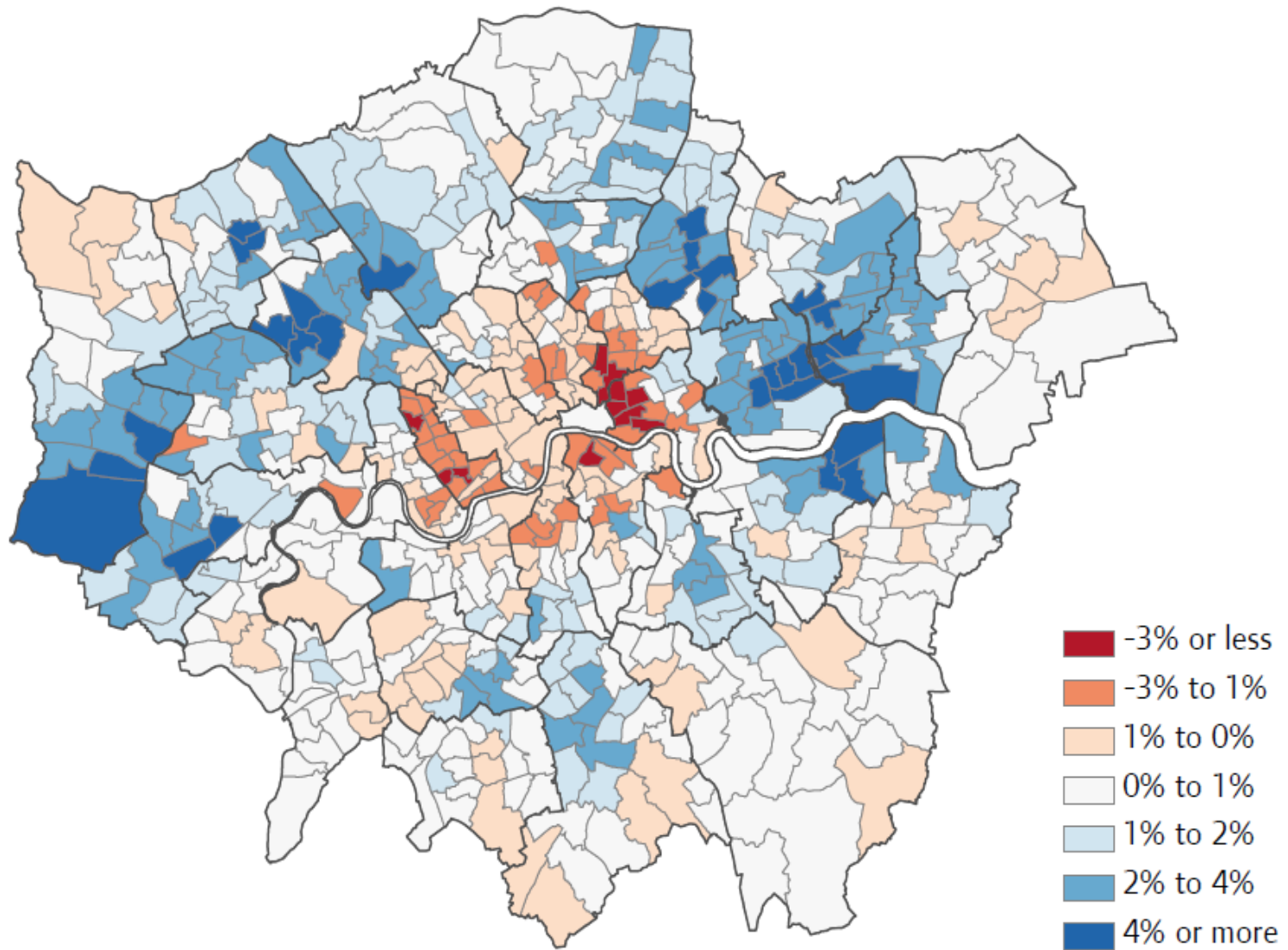


Figure 5: Density of new dwellings, by region, 2000, 2005 and 2010

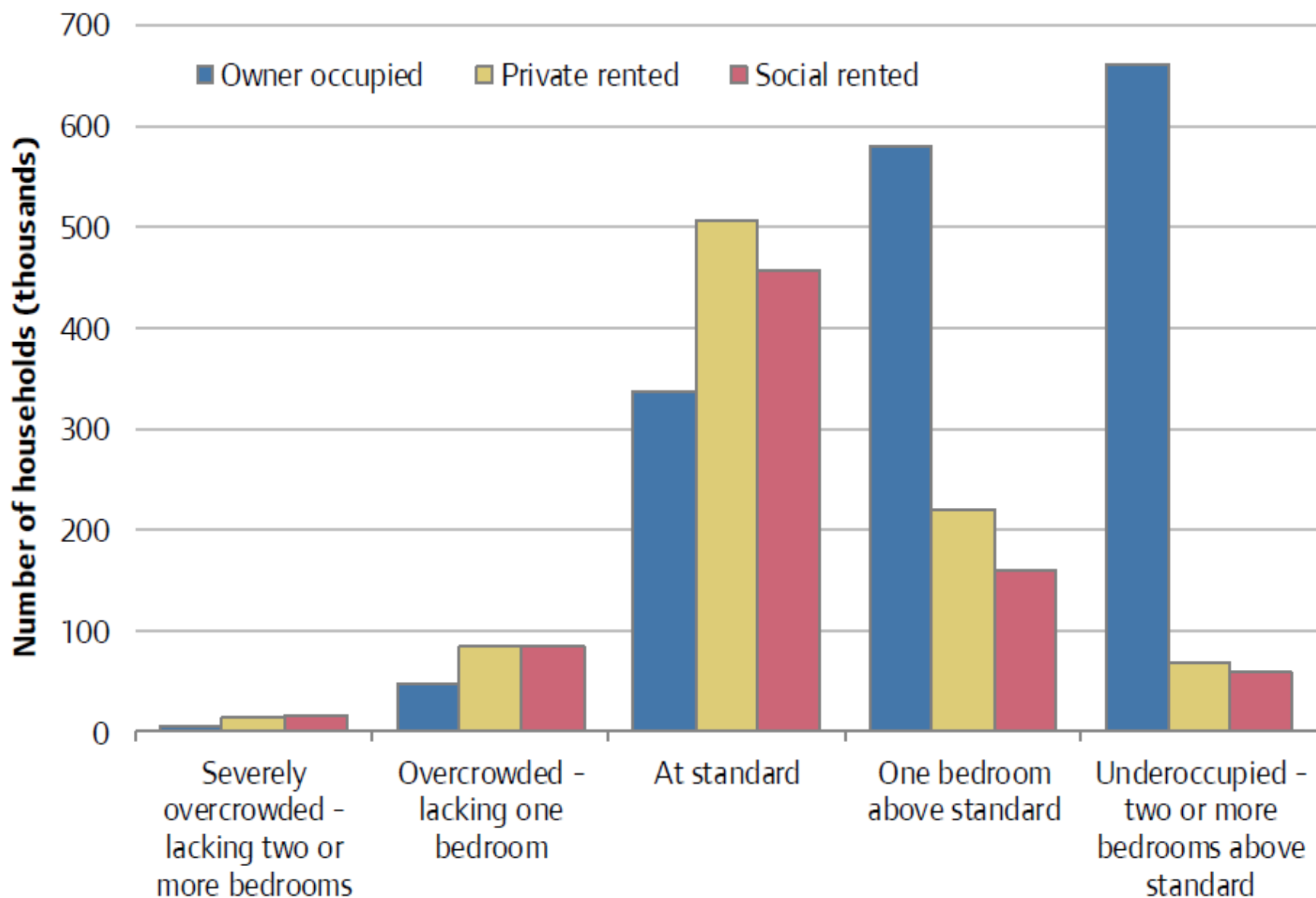




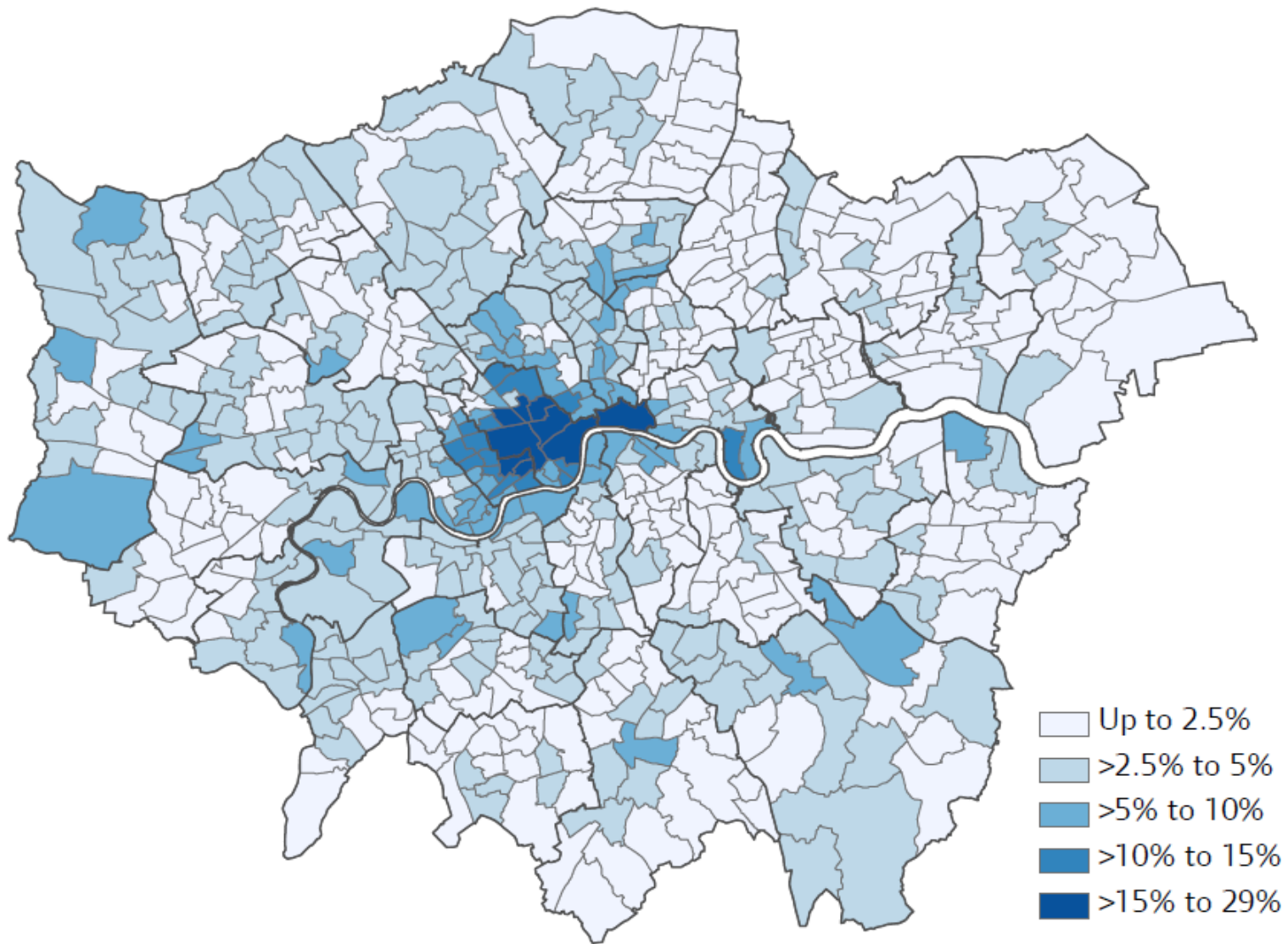
### Percentage point change in overcrowding rate (persons per room) by ward, 2001 to 2011



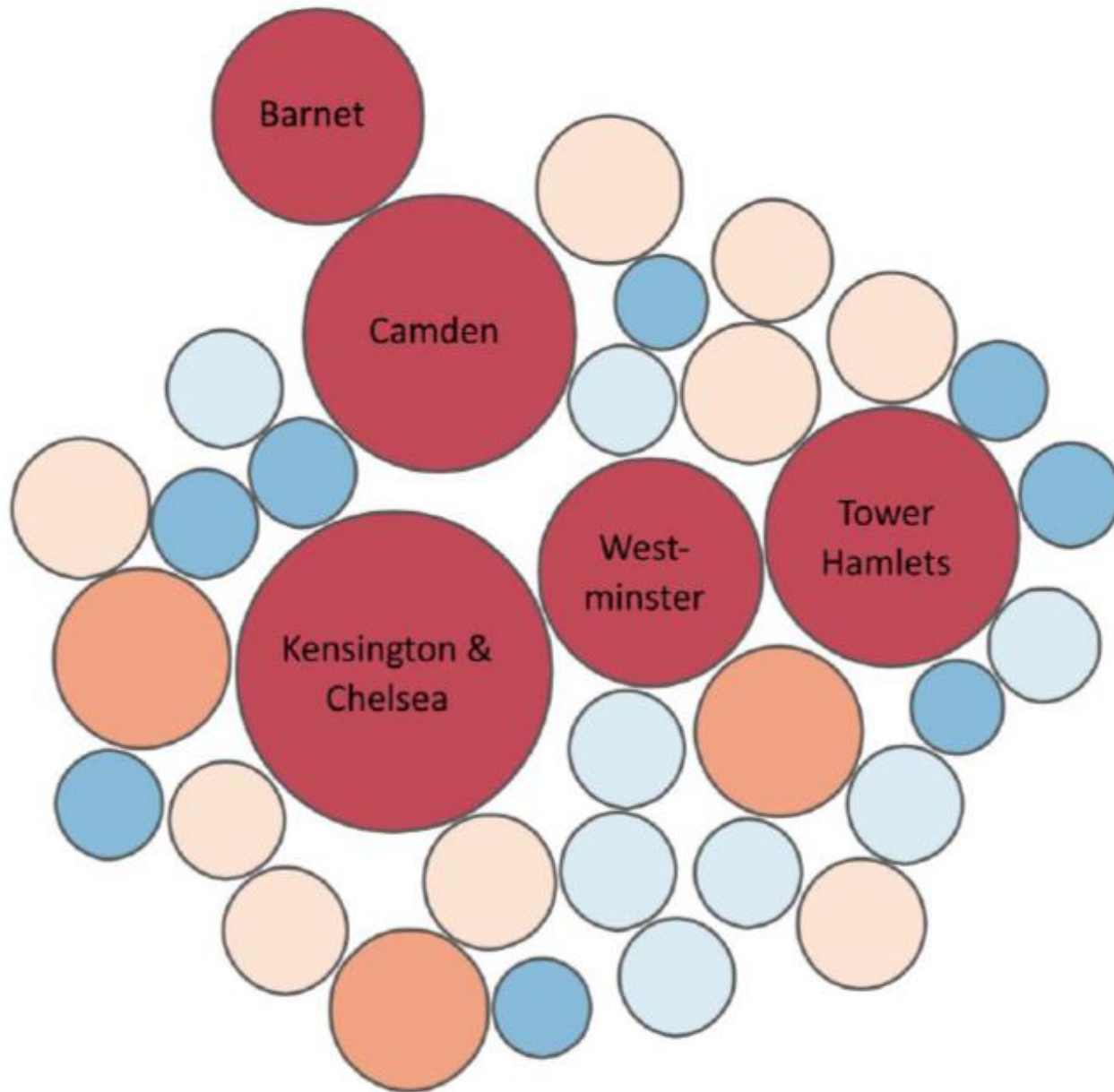
## Overcrowding and under-occupation by tenure, London 2012/13 - 2014/15



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



# Dwellings recorded as second homes for Council Tax purposes, 2016



# Tax options

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- ❑ 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
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# Capital gain from residential development

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# Agricultural land values (2015) per hectare

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	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

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# Industrial land values (2015)

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	<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)

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<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

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# Highest housing land values

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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

Barking and Dagenham	£ 155,879	£ 205,100	£ 281,075
Barnet	£ 194,478	£ 277,574	£ 354,788
Bexley	£ 159,636	£ 214,773	£ 288,290
Brent	£ 178,804	£ 240,921	£ 338,502
Bromley	£ 166,345	£ 237,768	£ 306,424
Croydon	£ 177,471	£ 240,500	£ 296,800
Ealing	£ 206,616	£ 275,389	£ 346,066
Enfield	£ 186,516	£ 250,676	£ 306,032
Greenwich	£ 216,803	£ 305,837	£ 395,660
Harrow	£ 186,972	£ 253,737	£ 332,571
Havering	£ 164,702	£ 220,228	£ 298,810
Hillingdon	£ 186,964	£ 243,563	£ 314,041
Hounslow	£ 195,840	£ 259,224	£ 350,359
Kingston upon Thames	£ 198,589	£ 264,506	£ 335,060
Merton	£ 198,198	£ 251,853	£ 309,756
Redbridge	£ 176,390	£ 254,386	£ 314,886
Richmond upon Thames	£ 237,282	£ 324,145	£ 385,104
Sutton	£ 200,264	£ 250,733	£ 304,639
Waltham Forest	£ 192,403	£ 258,819	£ 348,677

# Tax options

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- ❑ 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
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# The Proposed Research Project

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- 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 (TradeRisks) – all members of Highbury Group
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# Core tax options to be modelled

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- ❑ 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)
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# Assessment criteria

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- 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.
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# Conclusion

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- ❑ 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 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
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