Near-term political opportunities for property taxation reform
Discussion note by Rose Grayston for Highbury Group 12 September 2022

In preparation for the Highbury Group's special meeting on Pete Redman's housing taxation review, Duncan Bowie asked me to contribute a discussion note on: 'Which property tax changes are likely to be most popular and get through parliament'.

It's useful to have in Pete Redman's paper a focus on what Highbury Group members would want tax reform to achieve, but for influencing purposes we also need to ask ourselves what government – whether the present one or a future government – would want tax reform to achieve, in order to assess our likely opportunities to achieve political prioritisation for different reforms.

Writing on the evening of 5th September 2022, we now finally know with certainty the identity of the new Prime Minister. Kwasi Kwarteng is widely expected to be appointed Chancellor, and Jacob Rees-Mogg has been tipped for next Secretary of State of DLUHC, but we are still waiting for further announcements on Liz Truss's new cabinet. This short paper is therefore speculative and may age poorly! Nevertheless, there is much we already know about how a Liz Truss government is likely to approach housing taxation given broader economic and political conditions.

Opportunities to influence the new Conservative Government
With just over two years before the deadline for the next general election to be held, it is unlikely that Truss's government will be motivated to engage in any tax changes that risk controversy with Conservative voters. Truss clearly set out her intention to cut taxes during the Conservative leadership contest, which makes serious housing taxation reform a distant prospect. Even revenue neutral measures will create winners and losers, and Truss will want to avoid losing the support of those whose liabilities would increase with any reform. Given two recent successes for Liberal Democrat candidates in parliamentary by-elections, the Conservative Party may now seek to shore up its southern base – made up of relatively wealthier, older voters. House price growth in most of the south has vastly outpaced growth in other parts of the country, so that property owners here stand to lose out most from the progressive changes the Highbury Group has called for to Council Tax, Stamp Duty Land Tax, Inheritance Tax and Capital Gains Tax.

Indeed, we will find ourselves at least partly in a defensive position on housing taxation. Firstly, the Levelling Up and Regeneration Bill is still going through parliament, including clauses to introduce a new Infrastructure Levy to (at least partially) replace the current Section 106 and Community Infrastructure Levy mechanisms for capturing land value uplift on new private residential developments. This presents several risks to the Highbury Group's aims which work from others has explored.[1] We do not yet know whether, or in what form, Truss's government will continue to advance the Bill through parliament, but we should be prepared to contribute to debates on the Infrastructure Levy.

Secondly, it is possible that Truss's government will consider cuts to Stamp Duty Land Tax, as many backbench Tory MPs – and Jacob Rees-Mogg - have long desired. Given signs of a slowdown in the housing market and broader economic woes, it may be tempting to the new government to use SDLT cuts to boost housing transactions and make homeowners feel wealthier, particularly in the run up to the next general election. There are clear risks to

[1] See Crook, T., Henneberry, J., and Whitehead, C. (2020) Planning for the future: Challenges of introducing a new Infrastructure Levy, UK Collaborative Centre for Housing Evidence

the Highbury Group's aims if SDLT is changed in ways which damage housing affordability and opportunities to meet housing need.

However, there are also potential opportunities to use the government's relative openness to changes to SDLT to make the case for progressive reforms, for example to incentivise residential property purchase for owner-occupation over investment purchases. Since 2016, those buying homes to privately let or second homes have paid a 3% surcharge on SDLT, giving owner occupiers an advantage in the property market and contributing to the modest growth in mortgaged owner occupation in England seen between 2016 and 2019.[2] This was followed by the government's decision to cut the basic SDLT rate for all property purchases during the pandemic, which seems to have led to spikes in holiday home, second home and Buy to Let purchases in many local housing markets.[3] Many of the communities which have seen housing affordability decline and local housing need rise as a result of this are electorally important to the Conservative Party, so the new government may welcome thinking on how to use changes to SDLT to further disincentivise investment purchases – such as increasing the surcharge.

Opportunities to influence a future Labour Government led by Starmer

A Labour government under Keir Starmer is a very different prospect – and perhaps no longer a very distant one. What we know so far about Labour's policy intentions - from some public statements and from private conversations with Keir Starmer's Economic Policy Unit - suggests that Labour is thinking seriously about the role of housing policy in driving or limiting economic growth, and is open to more ambitious tax reforms to achieve both economic and social policy aims. It is helpful that Highbury Group also has a discussion note from Michael Edwards on the role of investment in property in limiting investment in productive industries, as this is something the Economic Policy Unit team are interested in understanding and developing policy responses to.

The Labour Party is also interested in tax changes to aid implementation of other policy plans. In particular, the Economic Policy Unit is interested in tax changes to disincentivise investment purchases of housing, and to create a smaller, more affordable, more secure and better quality Private Rented Sector, alongside an increase in the supply of social and affordable housing. Keir Starmer and other shadow cabinet members have spoken often in the media about their intention to tax wealth more heavily under a future Labour government, but they have stopped short of suggesting new or higher wealth taxes would be targeted at housing wealth.

After a difficult environment for influencing Labour Party policy for many of us during the pandemic, communication seems to be opening up, and serious thinking on the party's platform for a general election and for government is happening.

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[2] Department for Levelling Up, Housing and Communities – English Housing Survey, live tables on dwelling stock, Table 104: by tenure, England (historical series)

[3] See Guardian (14 December 2020) Buy-to-let sales boom as landlords rush to benefit from stamp duty holiday; Pickford, J. (2021) Buy-to-let landlords spread their bets away from London, *Financial Times;* Pirate FM (7 September 2021) "Almost 4,000 homes in South West flipped to holiday homes since pandemic"; Chronicle Live, (28 August 2021) "Rise of Northumberland 'ghost towns' feared from Covid housing and holiday boom"