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

Briefings

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Distortionary taxes, constant tinkering and a failure to build enough social homes were all decried by speakers at the latest CIOT/IFS debate.

On 27 November, CIOT and the Institute for Fiscal Studies co-hosted a debate exploring the various tax policies that affect property and home ownership, including incentives for landlords, renters and property owners, ‘distortionary’ stamp duty land tax (SDLT) and the need for ‘radical’ reform.

Josh Ryan-Collins, a professor at UCL’s Institute for Innovation and Public Purpose, explored the structural drivers for the property market. He said incentives such as tax reliefs and the promise of investment gains have succeeded in pricing houses beyond the reach of most young people and have left a third of homes underoccupied. ‘The whole system is now extraordinarily biased towards home ownership,' he added, as the tax burden for owners is much lower than for renters.

Stuart Adam, a senior economist at the IFS, said the most obvious impact of tax on property is with SDLT, which discourages transactions and means many properties are not owned by those who value them most. Josh agreed that SDLT was a distortionary tax and said an annual property tax would 'release a lot of this under-occupied housing'.

Meera Chindooroy from the National Residential Landlords Association highlighted that more than two-fifths of landlords own just one rental property. She said a 'stagnation' of the rental sector coincided with tax changes from 2015 and demand is currently massively outstripping supply. Landlord confidence fell after mortgage interest restrictions, then again after the mini Budget in 2022. The result of this is that landlords are looking to decrease their portfolios, she explained; however, high rates of SDLT are discouraging selling.

John Powlton, Head of Investment Management Tax at M&G, said that the investor base for residential developments is mainly made up of long-term institutional capital, such as pension funds, who want long-term stability. However, he warned that this investment has been undermined by tax changes affecting housing in almost every year since 2013.

'The problem is the constant tinkering,' John said. 'Each time you do that you change the investment proposition.' He said that tax policies used for particular purposes can accidentally affect other areas, including housing. For example, scrapping multiple dwelling relief was a response to abuse of the system, but also had the side effect of affecting institutional investment. He suggested that other ways could have been found to stop the abuse without scrapping the relief.

What needs to change? Alongside abolishing SDLT and the single person discount for council tax, Stuart suggested removing most of the features introduced to the system in the last decade and introducing a 'rate of return allowance' for landlords.

Josh said the key was more social, affordable housing 'at rents that are aligned to people's incomes'. He said this was common in the post-war period but prices have increased since then.

John said that if you genuinely want to change behaviour, you have to be really bold. He said changes to capital allowances had not been big enough to influence any of his company’s fund managers.

Asked in separate questions about the future of private residence relief and capital gains tax, Stuart said he would not abolish either but would introduce indexation of gains. However, the reason housing is so unaffordable ‘is that we don’t have enough of it and tax on its own is not the way to [address] that. Where tax does have an impact is making use of the property we’ve got.’

Read a fuller report on the debate or watch a recording at tinyurl.com/tax-housing-debate