

BRIEFING NO. 4
PROPERTY TAX AND HOUSING AFFORDABILITY
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This briefing provides an assessment of the impact of property taxation on housing affordability.

Summary

- A system of property taxation would increase the burden of taxation in high cost areas.
- However, we would expect house prices and rents to fall in response to this.
- Asset rich but income poor pensioners could be helped with a rebate system, or by deferring liability.
- Ultimately, the solution to housing affordability lies in improving supply, decentralising economic activity away from London, and boosting lower-end incomes.

Introduction

One common concern about proposals for reform or changes in property taxation is that this may exacerbate existing problems of housing affordability. For example, if Council Tax were made more proportional to property values, then people in ‘high priced’ areas, like Edinburgh or London, would pay more – yet these are the areas where housing is already least affordable. So taxing property more, or more effectively, might make housing affordability even worse in these areas, when we count the tax as part of the cost of housing.

Affordability and property tax

In the longer term, the solution to the problem of housing affordability is to build more housing in the regions of high demand, and ensure that plenty of the housing that is built is affordable to people on lower incomes. Another part of the solution may be to try to shift the balance of economic activity so it is not so highly concentrated in just a few places, but more evenly spread across the country. A third part of the solution is to pay attention to the pattern of incomes, for example by raising the minimum wage.

In the shorter term, before housing supply has time to adjust, the way that the housing market works is that it will take account of property tax levels. If property taxes are higher in Edinburgh and London, this will lead to fall in house prices and rents in these areas. This will provide a compensating benefit to the people for whom housing affordability is a particular problem, those who are newly entering the housing market or needing to move to these areas for employment or other reasons. Existing owner occupiers will see some fall in the paper value of their housing assets, but in most cases their mortgage outgoings will not be affected and will typically be lower, relative to their incomes, because they bought in the past when prices were lower. Existing renters will benefit because rents will be lower, or not rise so much as they would otherwise have done.



The affordability of the property tax payment itself is something which needs to be considered in the design of any reformed system. In general, large taxes on house purchase transactions are not desirable, because they inhibit mobility and create an up-front cost on top of normal deposits which have to be found from non-mortgage sources. That is why current attention is being given to reform of stamp duty in housing.

The recurrent property tax, whether in the form of Council Tax or its replacement, should be designed in such a way as to take account of affordability. The former Council Tax Benefit, now known as Council Tax Support, should provide for households on the lowest incomes and ensure that they do not face an excessive burden. The design of a new property tax can be adapted to take account of incomes, whether at the individual level or at the local authority area level, with grants to local authorities adjusted accordingly.

Asset rich and income poor

One group often referred to in this context are older owner occupiers who have paid off their mortgages and have become used to a situation where their housing outcomes are low or negligible. A reformed property tax might mean that some of these households would face a higher level of outgoings. For those on very low incomes and without significant financial assets, the normal support mechanism should come into play. For older owners on modest incomes, another option can be developed, whereby the tax might be deferred and accumulated as a charge on the property, to be settled on death or disposal. More generally, older households in Britain today are better off than in the past, thanks to more generous pensions and benefits, and relatively few are poor. Most could afford to pay somewhat higher recurrent property tax if called on to do so. Since many are under-occupying family-sized houses which they do not need, the property tax would provide them with some incentive to consider 'down-sizing' to accommodation which might better fit their needs anyway.

Conclusion

Although higher property values would attract higher property taxation, we would expect prices and private rents to fall in response. Ultimately, however, the solution to affordability lies in increasing supply in high demand areas, decentralising the economy away from London and the south-east of England, and boosting lower end incomes.