The Property Uplift Recovery Tax

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The Liberal Democrats have proposed increasing income tax by 1 penny which would raise just £4.6 billion pounds annually. Unfortunately income taxes have the harmful side effect of reducing the incentive for productive work. There is a better alternative, which would raise nearly twice the amount: a new tax called the Property Uplift Recovery Tax. This would work as follows: if an owner of domestic property is not resident in the UK for tax purposes, an annual levy would be payable on any house price appreciation for that property. The tax would be paid by all that own housing in the UK and are either:

- Foreign citizens not resident in the UK for tax purposes, or
- British citizens who have non-domiciled tax status, or have been non-resident for over 15 years (the current time limit on voting rights), or
- Corporate entities registered offshore.

This tax would raise about £8.5 billion pounds per year, as follows. UK housing stock is now worth £6.8 trillion (FT[1], 17 Jan 2017). A report by the Bow Group[1] estimates £680bn (10%) of UK housing is foreign owned. Data from Nationwide[2] indicates that annual real terms housing asset appreciation has been 3% since 1990. If the tax aims to recover 50% of this, the gross tax base is about £10bn per annum, but if offset against other taxes it would net £8.5bn.

Taxes need a compelling story which resonates with the electorate, and this tax has one. We are rightly proud to live in a country with a strong economy, a stable government and respect for the rule of law. Housing in the UK is a safe haven for overseas investors who often leave properties empty: some residential developments in Britain have been likened to towers of safe-deposit boxes. The IPPR[3] reports that there are 216,000 homes in England which have been empty for over six months: more houses than are built in the entire country during a year. These investors are not taxed in Britain and do not fully contribute to our economy or society, but sit on housing needed by British workers and families. Any upside of rising UK housing prices should circulate around the UK economy to benefit the UK. Britain has no duty to allow its housing to function as a free safe deposit box service for non-taxpayers. The report by the Bow Group considers that pressure from foreign investors is a major factor in house price inflation and prices UK residents out of the market.

This is more liberal than some countries allow. In Switzerland, Denmark, Hong-Kong, and Singapore foreign ownership of housing is severely restricted. A liberal approach allows offshore owners to invest in UK property provided this benefits the country. By contrast foreign nationals who make Britain their tax base would not be liable to this tax. British citizens who have non-domiciled status, electing for their earnings and taxation to be treated offshore, should be liable.

Taxes should be predicable and provide a smooth revenue flow. Since house prices are volatile it would be necessary to base the tax on real term averages, adjusted for

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1 www.bowgroup.org/sites/bowgroup.uat.pleasetest.co.uk/files/The%20Bow%20Group%20-%20The%20UK%20Housing%20Crisis%20%282015%29%20FINAL.pdf

2 www.nationwide.co.uk/~/media/MainSite/documents/about/house-price-index/downloads/uk-house-prices-adjusted-for-inflation.xls

3 www.ippr.org/publications/back-on-the-market-bringing-empty-homes-back-into-use

inflation, over several years, sufficiently long to ensure that short term price decreases did not lead to a negative tax liability. In the unlikely event of this occurring, the tax would not be payable until prices recovered. Housing asset appreciation varies across the country, and in a particular neighbourhood would be calculated using well accepted sources such as the popular internet site ñZooplaò, which uses actual house price transaction data. The tax would be additional to most existing property taxes such as council tax. It would be offset against some existing taxes, reducing its net take to £8.5bn. Offsetting against Stamp Duty would cost £1bn, and offsetting the ñannual tax on enveloped dwellingsò for overseas corporations nets £0.1bn. Offshore homeowners who do the right thing and let out their property rather then leaving them empty *are* is taxed in the UK, via the ñNon-resident Landlords Schemeò: the Treasury[4] estimated this nets £0.4bn annually. Offsetting this latter tax would provide a strong incentive to let out currently empty properties.

ALTER has long argued that long term solution to raising revenue is a Land Value Tax. The proposed tax is almost a pure land value tax; when average house prices reported by Zoopla rise by, say, 5% in a certain area in a year, this is normally due to land value increases, not because all the property owners have suddenly improved the fabric of their houses. Thus, although average house prices have risen 100% in real terms since 1990, the average house has not improved by 100%. It recovers increases in land prices for the society that creates them, and does not penalize property improvements. If successful it could set a precedent for a full land value tax.

Promoting this tax would show that the Liberal Democrats support those who contribute to our society and our economy. There would be three possible outcomes from introducing this tax. First, offshore investors might hold on to their properties and pay the tax, so it acts as a source of revenue with little impact on housing availability. Second, investors might hang on but be motivated to rent out their properties, in which case the housing rental stock increases. Last offshore investors might sell, in which case the revenue will be lower than calculated, but a large number of empty homes would come onto the market at more affordable prices. The UK would win, win or win.

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1 www.ft.com/content/4906a246-dcb7-11e6-86ac-f253db7791c6

4 www.gov.uk/government/consultations/restricting-non-residents-entitlement-to-the-uk-personal-allowance/restricting-non-residents-entitlement-to-the-uk-personal-allowance