Institute for Public Policy Research

THE IMPACT OF A PROPORTIONAL PROPERTY TAX IN LONDON

Shreya Nanda

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IPPR
14 Buckingham Street
London
WC2N 6DF
T: +44 (0)20 7470 6100
E: info@ippr.org
www.ippr.org
Registered charity no: 800065 (England and Wales),
SC046557 (Scotland)

The progressive policy think tank

About the author

Shreya Nanda is an economist at IPPR.

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SUMMARY

The UK housing market does not share wealth and opportunity fairly. Over the last 40 years it has enriched some households at the expense of others, deepening wealth and regional inequality. Moving from our current system of council tax and stamp duty to a proportional property tax would help to address this, ensuring that our existing housing stock was shared more fairly, freeing up underoccupied housing stock for others to use, and helping to rebalance house prices across the country.

In the parts of the country where house prices are lower, this would cut property tax bills for the majority. In the parts of the country where house prices are higher – in particular London – this would help to tackle the crisis of affordability and make homeownership more accessible. But implementing a proportional property tax in London also has some particular challenges. In particular, London has a relatively high concentration of households that are asset-rich but cash-poor – and who may therefore struggle to pay a new property tax and feel that the amount that they are being asked to pay is unfair. London also has a potentially greater need for revenue to be retained and spent by local authorities; and a greater need for support for social housing providers. In this briefing, we look in detail at the specific issue of the impact of a proportional property tax on asset-rich, cash-poor households in London, using the recent *Fairer Share* proposals for the implementation of a proportional property tax as a case study.

We find that without additional support, the *Fairer Share* proposals for a proportional property tax would have a larger impact on owner-occupier households in London than in the rest of England. Looking first across all owner-occupier households, **4 per cent** would see their bills rise by more than 10 percentage points as a share of their income, compared to just 1 per cent for England as a whole; and **11 per cent** would see their housing costs become either unaffordable or more unaffordable, compared to 3 per cent for England as a whole.[1] Looking in particular at owner-occupier households living in relative poverty, **38 per cent** in London would see their bills rise by more than 10 percentage points as a share of their income, compared to 11 per cent for England as a whole.

For context, most households in London in relative poverty are not owner-occupiers – 81 per cent are renters or live rent-free. And for the group that are, poverty on the basis of income did not always translate into poverty on the basis of wealth. As well as owning property, owner-occupiers in relative poverty by income had, on average, more financial wealth (such as savings, stocks and shares) than the average London household - **£14,000** compared to **£7,700**. Those in this group who would see their bills go up under the *Fairer Share* proposals were wealthier still, with a median financial wealth of **£19,000**. In

[1] 'Unaffordable' is here defined as having housing costs (mortgage payments or rent plus council tax or proportional property tax bills) greater than 35 per cent of household net income.

other words, there is a trade-off between addressing income inequality and wealth inequality. A system of support for the asset-rich, cash-poor could end up taxing those without wealth to support those with wealth, thus increasing wealth inequality.

Finally, we look at potential measures to address these issues, both in terms of the national management of the policy and in terms of the design of the tax itself. We find that mitigatory measures – such as the deferral proposed by *Fairer Share* – could be used to ensure that no households face unaffordable property tax bills. And we find that providing support to low-income households would be affordable – in the context of the *Fairer Share* proposals, providing support to all owner-occupier households pushed into or deeper into unaffordability in the absence of deferral would cost **£150 million** per year in London, and **£300 million** across England. For context, a revenue-neutral proportional property tax could be expected to raise revenues in the region of **£21 billion** from owner-occupiers in England.

A proportional property tax presents particular challenges in London, but also particular opportunities to help tackle the region's housing issues. With careful policy design, a proportional property tax can be implemented in London without pushing households towards unaffordable housing costs; and providing support to households on top of this is affordable and achievable. The particular challenges posed by London should not be seen as barriers to the implementation of a proportional property tax.

THE CASE FOR A PROPORTIONAL PROPERTY TAX

The UK has seen huge house price growth over the past 40 years. However, instead of being shared fairly, this has benefitted some households through wealth accumulation at the expense of others, who have been locked out of homeownership. A redistributive property tax would help to solve this problem, and ensure that everyone can share fairly in the gains from economic growth (Nanda 2021). But our current system of property taxation fails to perform this function, and in some cases regressive. Replacing council tax and stamp duty with a proportional property tax – a tax based on the value of homes – would ensure that our existing housing stock was distributed more fairly, free up underoccupied housing stock for others to use and help to rebalance house prices.

As well as being fairer, these changes would also have significant regional implications. Council tax is regressive by design, and set locally, with higher rates on average in areas with lower property values (Nanda 2021). At the moment, London and the South East therefore contain 45 per cent of England's total housing stock by value (figure 1), but only account for 33 per cent of total council tax revenue raised (figure 2).

FIGURE 1: London is the region with the most valuable housing stock

Value of housing stock by region, all tenures, 2020, % of England total

Source: Author's analysis of DLUHC (2011), DLUHC (2021a), DLUHC (2021b), DLUHC (2021c), DLUHC (2021d), DLUHC (2021e), DLUHC (2021f), HM Land Registry (2021a), HM Land Registry (2021b), ONS (2019), ONS (2021a), ONS (2021b)

Notes: To estimate the capital value of the private rented stock, we have assumed that capital values for properties in the private rented sector vary with rents, ie that rental yields are uniform across tenures. A more in-depth assessment was beyond the scope of our analysis. For details of our methodology for estimating the value of the social housing stock, see the appendix. Figures may not sum exactly due to rounding.

TABLE 1: The total value of the London housing stock is £1.5 trillion

Value of housing stock by region, all tenures, 2020

Region	Total value of housing stock, £bn	Value of housing stock, % of England total
North East	150	2%
North West	520	9%
Yorkshire and the Humber	380	6%
East Midlands	390	6%
West Midlands	470	8%
East	750	12%
London	1,540	25%
South East	1,210	20%
South West	640	11%
England	**6,040**	**100%**

Source: Author's analysis of DLUHC (2011), DLUHC (2021a), DLUHC (2021b), DLUHC (2021c), DLUHC (2021d), DLUHC (2021e), DLUHC (2021f), HM Land Registry (2021a), HM Land Registry (2021b), ONS (2019), ONS (2021a), ONS (2021b)

Notes: To estimate the capital value of the private rented stock, we have assumed that capital values for properties in the private rented sector vary with rents, ie that rental yields are uniform across tenures. A more in-depth assessment was beyond the scope of our analysis. For details of our methodology for estimating the value of the social housing stock, see the appendix. Figures may not sum exactly due to rounding.

FIGURE 2: London accounts for 25 per cent of England's housing stock by value, but only 14 per cent of council tax revenue

Council tax revenue by region, 2020-21, % of England total

Source: DLUHC (2021g)

Notes: Figures may not sum exactly due to rounding

TABLE 2: Council tax revenue in London was £4.4 billion in 2020-21

Total council tax revenue by region, 2020-21

Region	Council tax revenue, £bn	Council tax revenue, % of England total
North East	1.3	4%
North West	3.8	12%
Yorkshire and the Humber	2.8	9%
East Midlands	2.7	8%
West Midlands	3.0	9%
East	3.8	12%
London	4.4	14%
South East	6.1	19%
South West	3.8	12%
England	**31.7**	**100%**

Source: DLUHC (2021g)

Notes: Figures may not sum exactly due to rounding

A fiscally-neutral switch to a proportional property tax would, all else being equal, result in higher tax bills in areas with higher house prices, and lower tax bills in areas with lower prices (Nanda 2021). However, in the absence of any redistribution at the national level, this would result in higher local authority budgets in areas with higher house prices, and reduced budgets in areas with lower prices. This would have implications for service delivery in areas with lower property prices. Additional redistribution at the national level would be needed to ensure that this did not occur.

A PROPORTIONAL PROPERTY TAX AND LONDON

These regional disparities in the housing market and current property tax system mean that implementing a proportional property tax would have significantly diverse implications in different parts of the country. This briefing focuses on the impact of implementing a proportional property tax in London – a region where the need for a proportional property tax is particularly pressing, but also potentially the region where implementing this tax presents the most challenges.

London has seen the highest levels of house price inflation of any region over the last 25 years; it also has the highest ratio of house prices to earnings (Nanda 2021). A proportional property tax would help to redistribute this wealth, and free up underoccupied housing stock for those in need of housing to use. But London boroughs currently have some of the lowest council tax rates in the country– for example, average council tax rates as a proportion of property value in Westminster are 22 times lower than those in Hartlepool (Dixon 2021). A move to a proportional property tax therefore has particular potential to tackle the problems with the housing market in London.

However, there are also issues surrounding its implementation. There are three key issues around the implementation of a proportional property tax in London: pressure on the asset-rich but cash-poor; fiscal implications for local authorities; and financial implications for social housing providers. In addition, there are significant political barriers to the reform of property tax. Murphy and Snelling (2019) provides an overview.

The asset-rich, cash-poor

London has the highest property prices in the country on average and, as our analysis below shows, the highest concentration of households living in expensive properties but with incomes that may not be able to support higher property tax bills. In the absence of targeted support, a switch to a proportional property tax would put particular pressure on households in this group, who may struggle to pay a new property tax and feel that the amount that they are being asked to pay is unfair.

The fiscal implications for local authorities

In the absence of any national-level redistribution, a move to a proportional property tax would have positive fiscal implications for London councils. London currently collects 14 per cent of council tax revenue (see figure 2), whereas we would expect it to collect something closer to 25 per cent of total revenue in England under a proportional property tax (see figure 1).

However, in reality, such a change would likely need to be accompanied by some degree of redistribution between areas, in order to avoid large shortfalls in local revenues in the poorest parts of the country. This redistribution would need to be balanced against the need for London councils to retain revenues to provide support to low-income residents facing increased property tax bills – the aforementioned asset-rich, cash-poor. There is also the potential that higher tax bills would increase the demand or expectation for higher spending on services in London among London residents.

The financial implications for social housing providers

A switch to a proportional property tax would have financial implications for social housing providers – either directly, if responsibility for payment of the tax were transferred from residents to providers; or indirectly, if responsibility for payment remained with residents but some or all of the economic incidence of the tax increase were borne by providers.

This means that, in the absence of additional support or tax exemptions for social housing providers, those in high-value areas would face some or all of the costs from higher tax bills.

This would present financial problems for providers, which have limited budgets and where any surplus is reinvested into maintaining existing stock or providing additional social housing. Social housing rents are also set in advance according to a national rent settlement, meaning that, even if they wished to, providers would not be able to pass costs on to tenants in the short to medium term. There is therefore a case for providing additional support or exemptions for social housing providers alongside the introduction of a proportional property tax.

Figure 3 contains estimates of the total value of the social housing stock by region. This gives some indication of the regional distribution of support that might be needed.

FIGURE 3: London is the region with by far the most valuable social housing stock

Value of social housing stock by region, 2020, % of England total

Source: Author's analysis of DLUHC (2011), DLUHC (2021d), DLUHC (2021e), DLUHC (2021f), HM Land Registry (2021b)

Notes: See appendix for details of methodology. Figures may not sum exactly due to rounding.

TABLE 3: The total value of London's social housing stock is £180 billion

Value of social housing stock by region, 2020

Region	Total value of social housing stock, £bn	Value of social housing stock, % of England total
North East	20	3%
North West	50	9%
Yorkshire and the Humber	30	6%
East Midlands	30	5%
West Midlands	50	8%
East	70	13%
London	180	32%
South East	80	15%
South West	50	9%
England	**570**	**100%**

Source: Author's analysis of DLUHC (2011), DLUHC (2021d), DLUHC (2021e), DLUHC (2021f), HM Land Registry (2021b)

Notes: See appendix for details of methodology. Figures may not sum exactly due to rounding.

Areas with high-value social housing stock also tend to have high-value private stock, so there is potential for any redistribution to happen within regions rather than between them. In other words, support for social housing providers could be funded by allowing local areas to retain some of their proportional property tax revenues. However, as figures 1 and 3 show, London's social housing stock is disproportionately high in value compared to the overall housing stock. This suggests a potentially greater need for London to retain some of its additional tax revenue in order to fund this support.

CASE STUDY: FAIRER SHARE PROPOSAL

As in our previous paper (Nanda 2021), we will now take a closer look at a recent prominent set of proposals for the introduction of a proportional property tax from the *Fairer Share* campaign, and their potential impact on London.

The proposal can be summarised as follows (Dixon et al 2020):

- Abolish **council tax**, **stamp duty** and the **bedroom tax**.
- Replace them with a **proportional property tax** – a flat tax of **0.48 per cent** per year on the current value of residential property.

The policy design contains the following elements:

- Responsibility for payment would be shifted from tenants to landlords.
- Increases in tax bills would initially be **capped** at £100 per month, until the property is sold.
- Those who are unable to pay would be able to **defer** payments until their financial situation improves or the property is sold. A modest rate of interest would be charged on top of the deferred tax amount.
- A higher rate of 0.96 per cent would be charged for **second homes**, **empty homes**, and homes owned by **non-UK residents**.
- Valuations would take place annually.
- The proportional property tax would also apply to undeveloped land with residential planning permission.
- Revenues would be split between central and local government (Fairer Share 2020). (Details of the split are not specified.)
- The budget for council tax support would be retained, but its distribution could be altered to reflect the new distribution of tax.

Because council tax is devolved in Scotland, Wales and Northern Ireland, these proposals relate to England only.

Analysis of their proposals suggests the following:

- Their proposal would be fiscally neutral at the national level.
- 75 per cent of households would pay less tax.
- On average, households would pay £435 less per year in property tax (Spencer 2021).
- Up to 600,000 homes could be made available across England over five years (Williams et al 2021)
- GDP could be boosted by £3.33 billion per year (Nanda 2021).

- Prior to any national-level redistribution, 19 of the 20 local authorities that would gain the most in financial terms are in London (WPI Economics 2021).

IMPACT ON OWNER-OCCUPIER HOUSEHOLDS IN LONDON

To estimate the impact of these proposals on owner-occupier households in London, we have used data from round six of the Wealth and Assets Survey – a survey dataset of approximately 18,000 households covering the period April 2016 to March 2018 (ONS 2020). We have also used data on housing tenure by region (MHCLG 2020a).

We have restricted our analysis to owner-occupier households only, both because of data limitations and because this is the group most likely to fall into the category of asset-rich, cash-poor. We have only considered the impact of removing council tax and introducing a proportional property tax, as we are primarily interested in the immediate impact on property tax bills. This means that our estimates do not incorporate the impact of removing stamp duty and do not constitute comprehensive estimates of the impact of these changes on household finances over time.

To model the impact of these changes, we have compared data on households' current council tax bills with their modelled bills under the *Fairer Share* proposals – 0.48 per cent of the current value of their home, with increases capped at £100 per month. Over time, we would expect these results to change, as households move to new properties and the cap ceases to apply. Our results relate to the immediate period after the implementation of these changes. In addition, there will be dynamic effects where the tax affects property values, which in turn affects the amount of tax levied. However, for this analysis we have only considered the first-order effects.

Impact on housing affordability – all owner-occupier households

To estimate housing affordability, we compared total monthly housing costs to total monthly net income. Total monthly housing costs are defined as the sum of any mortgage repayments and council tax or proportional property tax bills.[2] Total monthly net income is defined as the sum of net income from employment/self-employment, benefits, occupational or private pensions, investments, and any other sources. We used these variables to calculate the 'affordability ratio' – the ratio between housing costs and income – for each household.

[2] Normally, property tax would not be included in an assessment of housing affordability – hence any thresholds we use become more conservative assessments of affordability than they normally would be.

First, we looked at the number of households who would see their affordability ratio **rise by more than 10 percentage points** under the *Fairer Share* proposals.[3] This does not tell us about whether costs faced remain unaffordable or are now unaffordable (we look at this below), but tells us about the degree to which households can expect to see large shifts in their property tax bills relative to their income.

Without any additional support, this was **4 per cent** of owner-occupier households in London, or **68,000 households**. In England as a whole, 1 per cent of owner-occupier households would see their affordability ratios rise by more than 10 percentage points.

Impact on housing affordability – owner-occupier households in poverty

We then conducted the same analysis, but specifically looking at the subset of owner-occupier households in relative poverty (measured on the basis of their income).[4] For context, most households in London in relative poverty are not owner-occupiers. Just **19 per cent** of those in poverty – 163,000 households – are in this category.

Among the households in this group, we found that **38 per cent –** 4 per cent of all owner-occupier households, or 62,000 – would see their housing costs rise by more than 10 percentage points relative to their income because of these proposals. This is higher than the equivalent figure for England, which is 12 per cent of households in relative poverty, or 1 per cent of all owner-occupier households. On average, this group of London households would see their bills rise by **£76 per month**, or £910 per year.

We also looked at the distribution of financial wealth within this group, compared to the overall population – both to examine the potential for households whose income is low to pay the tax through other means and to explore the relationship between income inequality and wealth inequality.[5] Median financial wealth among owner-occupier households in relative poverty in London was **£14,000**. This is considerably higher than median financial wealth among all households in London – **£7,700** – and in England – £7,900. Median wealth among those in this group who would see their bills rise was even higher – **£19,000** – and for those in this group who would see their bills rise by more than ten percentage points, it was higher still – **£32,500**.[6] In other words, households judged to be in

[3] For example going from spending 20 per cent of their income to spending 30 per cent on housing costs. Housing costs are here defined as any mortgage payments and property tax payments.
[4] Relative poverty is here defined as having an equivalised household income after housing costs that falls below 60 per cent of the median.
[5] Financial wealth is here defined as the sum of any savings, shares, bonds, trusts and other financial assets – but excluding wealth in the form of property, pensions and physical possessions.
[6] This estimate is based on a small sample size and is therefore subject to uncertainty and should be taken as indicative only.

poverty on the basis of income may not always appear to be poor when assessed on the basis of wealth.

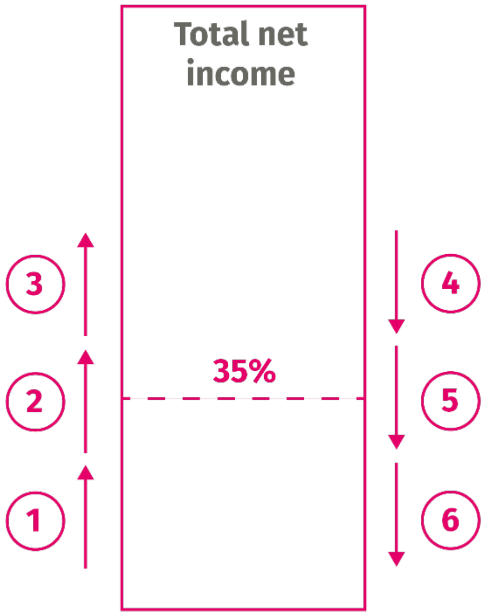
Our analysis here focuses on the subset of households affected by these changes who are in income poverty. However, it is worth reiterating that overall this policy is strongly redistributive – households are taxed on the basis of the amount of property wealth that they own. Those with the most expensive properties will pay the most. And, under the *Fairer Share* proposals, owners of second homes, owners of empty homes and non-UK property owners would pay a higher tax rate, further adding to the redistributive nature of the policy.

Changes in housing affordability status

We then looked at the number of households facing unaffordable housing costs, before and after these changes. We defined 'unaffordable' to mean a situation where housing costs (including property tax) are greater than 35 per cent of net income, building on the methodology in Baxter and Murphy (2017).[7]

FIGURE 4: The *Fairer Share* proposals cause households' housing costs to become more or less affordable

Six possibilities for changes in housing affordability



Source: Author's analysis

[7] 'Net income' is here defined as income net of all relevant taxes except for council tax (as this is one of our variables of interest).

There are six possibilities:

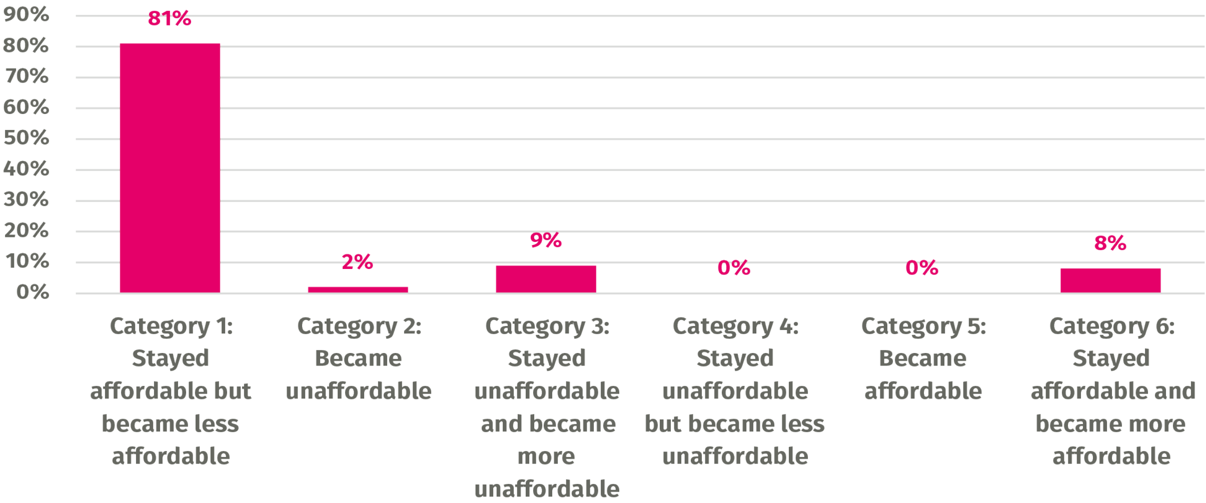
1. Stayed affordable but became less affordable
2. Became unaffordable
3. Stayed unaffordable and became more unaffordable
4. Stayed unaffordable but became less unaffordable
5. Became affordable
6. Stayed affordable and became more affordable

These possibilities are illustrated in figure 4.

We estimated the number of owner-occupier households in London that would fall into categories 2 or 3 – ie their housing would either become unaffordable, or become more unaffordable, relative to their current income. We found that **2 per cent** of owner-occupier households would see their housing become unaffordable as a result of the *Fairer Share* proposals, while a further **9 per cent** would see their housing become more unaffordable (figure 5). In total, **11 per cent**, or **193,000 owner-occupier households**, would see their housing costs become either unaffordable or more unaffordable under the *Fairer Share* proposals without any additional support. This is significantly higher than the same figure for the next highest regions – 4 per cent in the East of England and the South East – and for England as a whole – 3 per cent. The majority – 81 per cent – would see their bills rise but remain affordable, while a small share – 8 per cent – would see their bills fall.

FIGURE 5: The majority of owner-occupier households in London would see their housing costs remain affordable

Share of households in each affordability category, owner-occupier households in London



Source: Author's analysis of ONS (2020)

Implications for support needed

Finally, we looked at the size and regional distribution of the 'unaffordable' portion of tax paid by those in categories 2 and 3. For those in category 2, this is any tax paid above the 35 per cent threshold. For those in category 3, this is equal to the entire increase in their tax paid.

TABLE 4: The total 'unaffordable' tax bill in England would be £300 million

'Unaffordable' tax paid by region

Region	'Unaffordable' tax paid per household per year, £	Number of households in categories 2 and 3	Total 'unaffordable' tax paid per year, £m	Total 'unaffordable' tax paid, % of England total
North East	240	6,000	2	1%
North West	540	21,000	11	4%
Yorkshire and The Humber	330	15,000	5	2%
East Midlands	280	13,000	4	1%
West Midlands	670	15,000	10	3%
East of England	500	64,000	32	11%
London	810	193,000	156	52%
South East	550	119,000	65	22%
South West	480	32,000	15	5%
England	**630**	**480,000**	**301**	**100%**

Source: Author's analysis of ONS (2020), MHCLG (2020a)

Notes: Figures may not sum exactly due to rounding

FIGURE 6: Over half of 'unaffordable' tax paid would fall in London

Total 'unaffordable' tax paid by region, % of England total

Source: Author's analysis of ONS (2020), MHCLG (2020a)

Notes: Figures may not sum exactly due to rounding

As Table 4 shows, the amount of 'unaffordable' tax paid is highest in London, at **£67 per month**, or £810 per year, on average for households in categories 2 and 3.

If support were provided equal to the amount of ‘unaffordable’ tax paid to all owner-occupier households pushed into or deeper into unaffordability by these proposals, this would cost a total of **£300 million per year**. For context, under the revenue-neutral *Fairer Share* proposals, the amount of revenue raised from owner-occupier households by a proportional property tax immediately after introduction[8] would be in the region of **£21 billion per year**. **52 per cent** of this support would take place in London, and 84 per cent in London, the East of England and the South East.

Of course, our analysis here is based on one specific definition of unaffordability. This is different from how eligibility for council tax support is currently determined. This is set at the discretion of local authorities, but is typically targeted specifically at those on low incomes or in receipt of certain benefits. Our analysis here is for illustrative purposes only.

Our affordability analysis looks at what would happen to households in the absence of any additional support. However, the *Fairer Share* proposals *do* contain additional measures to provide support to households in these groups. In particular, their proposals contain the provision that households that cannot pay their property tax bill should be able to defer payment to a later date, or until the property is sold. This means that no households would find themselves in the position of facing a property tax bill that they cannot afford to pay. This is discussed in more detail in the next section.

[8] That is, with the £100 per month cap fully in effect.

POTENTIAL SOLUTIONS

As we have seen above, under the version of a proportional property tax proposed by *Fairer Share,* 11 per cent of households in London could expect to see their housing costs become unaffordable in the absence of any additional support or mitigatory measures. In this section, we will examine the potential for support and measures to address these problems.

Giving local areas control over rates

Charging different rates in different parts of the country, or devolving rate-setting powers to local areas or regions, would allow areas to set their rates to better suit local need. However, this would have implications for the potential for national-level redistribution – a poorly-designed system could give areas the incentive to set a low rate locally and free-ride on higher revenues from elsewhere. A fair, well-designed system is possible, but this trade-off requires consideration.

Redistribution between areas

As explained above, a move to a proportional property tax would likely need to be accompanied by some degree of redistribution between areas. Some have argued that this should be done on the basis of property values and historic infrastructure spend – ie that revenue should be redistributed from areas with high property values to areas with lower property values, to help address regional inequality and 'level up' (IPPR 2021). Others have argued that this should be done based on current need and levels of poverty in an area, or on the basis of need for support with the new property tax bills (ibid). The latter would imply a greater level of retention of revenues, given that need for support is likely to be highest in areas where property values are highest. Others still have argued that a greater degree of fiscal autonomy is desirable, both because of its association with better outcomes and higher social investment (Raikes 2020), and because of the incentives it provides to areas to pursue pro-growth policies (Nanda 2021).

Current spending on council tax support is also relevant here. Council tax support reduces council tax bills for those on low incomes or in receipt of certain benefits. It replaced council tax benefit in 2013. Council tax benefit was funded and eligibility determined by central government, whereas council tax support is funded by and provided at the discretion of local authorities, putting pressure on councils with lower council tax bases.[9] The regional distribution of current council tax support spending is shown in figure 7.

[9] Within a framework set by central government.

FIGURE 7: Council tax support spending levels are highest in London

Council tax support expenditure by region, 2019-20, % of England total

Source: MHCLG (2020b)

Notes: We have used data for 2019-20 to exclude the impact of the Covid-19 pandemic, which affected the regional distribution of council tax support expenditure. Figures may not sum exactly due to rounding.

TABLE 5: Council tax expenditure in London was £580m in 2019-20

Total council tax support expenditure by region, 2019-20

Region	Council tax support expenditure, £bn	Council tax support expenditure, % of England total
North East	0.25	7%
North West	0.52	15%
Yorkshire and the Humber	0.34	10%
East Midlands	0.27	8%
West Midlands	0.39	11%
East	0.34	10%
London	0.58	17%
South East	0.46	13%
South West	0.33	10%
England	**3.48**	**100%**

Source: MHCLG (2020b)

Notes: We have used data for 2019-20 to exclude the impact of the Covid-19 pandemic, which affected the regional distribution of council tax support expenditure. Figures may not sum exactly due to rounding.

A switch from council tax to a proportional property tax would result in changes in the distribution of tax bills and thus changes in the distribution of need for support. There is therefore potential for this spending to be redistributed towards areas with greater need under the new system. However, since this spending takes place indirectly, in the form of revenue foregone, rather than directly as under the pre-2013 system, it may make more sense to allow this redistribution to happen indirectly, by allowing areas with higher property values to retain more of their property tax revenues to fund this new support spending.

Mitigations and transitional measures

The design of the tax system itself can also be used to address the pressure placed by these changes on the asset-rich, cash-poor and other groups.[10]

One set of measures would address the introduction of the tax. This could mean phasing in the new tax over time, likely at the point of sale (Myers 2016), or capping potential increases in bills for an initial period (Dixon et al 2020). Either of these measures would help to address the impact of a proportional property tax on the asset-rich, cash-poor during the transition period. The former measure would mean that sitting homeowners would be unaffected by the tax up until the point at which they moved home; and new buyers would take their expected tax bill into account in their purchase decision, meaning that the tax would be less likely to present affordability issues.

Another set of measures would provide ongoing support for taxpayers. This could mean allowing households unable to pay the tax to defer payments until the point of sale; or it could mean providing targeted support to low-income households, in a similar manner to the current system of council tax support.

Allowing deferral would remove any short-term pressure on the asset-rich, cash-poor owner-occupier households identified in the case study above. Tax bills could be rolled up until the point of sale, at which point households would benefit from the removal of stamp duty, as well as any house price growth over the period of ownership. For context, the latest house price data shows that house prices rose by 7.5 per cent in London in the year to August 2021; and by 9.8 per cent across England as a whole (HM Land Registry 2021c). Households may still find themselves making a decision over whether to relocate, but this will be on the basis of their net financial position upon the sale of their property, rather than their short-term financial situation.

Providing support to low-income households would also help to address pressure on asset-rich, cash-poor households. However, there is a trade-off between addressing wealth inequality and income inequality. A system of support for the asset-rich, cash-poor could end up taxing those without wealth to support those with wealth, thus increasing wealth inequality. It could also potentially dampen the effectiveness of the policy in terms of redistributing wealth and promoting more efficient use of the existing housing stock.

The solutions discussed here are not mutually exclusive – multiple measures could be combined to address the potential issues with a proportional property tax. However, careful attention would have to be paid to the potential interactions between different measures.

As stated above, the *Fairer Share* proposals examined above contain provisions for increases in bills to initially be capped at £100 per month, and for households unable to pay to be given the option of deferring payment until they are able to

[10] Nanda (2021) contains a broader discussion of policy design considerations. Murphy and Snelling (2019) contains a fuller discussion of potential mitigations and strategies for reform, including considerations of how policy design can be used to address the political barriers to reform.

pay or until the point of sale (plus a modest rate of interest). The former measure is incorporated into the analysis above, but the latter is not. Allowing households to defer their tax bills is an effective solution to the issue of unaffordable housing costs for the asset-rich, cash-poor.

CONCLUSION

A proportional property tax is a key way of addressing the current problems with the country's housing market, sharing wealth more fairly within and between regions, and making our economy stronger (Nanda 2021). It would help to reduce property tax bills in the parts of the country where house prices and incomes are lowest; and, in the areas which have seen the strongest house price growth, ensure that those gains are more fairly shared (ibid).

But, because our regions and their economies are so different, it also raises different implementation issues in different parts of the country. This paper has looked at the issues a proportional property tax would present in London. These include the impact on the asset-rich, cash-poor; and the financial implications for local councils and for housing associations.

We have looked specifically at the impact of proposals from the *Fairer Share* campaign, and found that households in London are likely to be in particular need of support. Across all owner-occupier households, **4 per cent** would see their bills rise by more than 10 percentage points as a share of their income, while **11 per cent** would see their housing costs become either unaffordable or more unaffordable. Among owner-occupier households in relative income poverty, **38 per cent** in London would see their bills rise by more than 10 percentage points as a share of their income. We also found that owner-occupiers in relative income poverty were a relatively small group, and typically had higher financial wealth than the general London population, as well as of course higher property wealth.

However, measures such as the deferral mechanism proposed by *Fairer Share* would mean that no households would face property bills higher than they could afford on their current income. And if additional support *were* provided to the households identified above, it would be eminently affordable - across England, this would cost **£300 million** per year, compared to potential revenues of **£21 billion** from owner-occupiers from a revenue-neutral proportional property tax. We could expect to see **52 per cent** of this support going to households in London.

Moreover, tax revenues from a proportional property tax would be significantly higher in London than in other parts of the country. WPI Economics (2021) found that, under the *Fairer Share* proposals and prior to any national-level redistribution, 19 of the 20 local authorities that would gain the most in financial terms are in London. Allowing councils to retain a portion of these additional revenues to fund new local support schemes would likely be the most practical way of dealing with this, and would be consistent with the principles of fiscal autonomy and providing local areas and regions with pro-growth incentives. And we would expect the switch to a proportional property tax to carry wider economic benefits, and thus lead to an increase in tax revenues, both in terms of the property tax itself and in terms of general taxation.

All of this suggests that the issues a proportional property tax presents for London can be overcome. Adequate support schemes, combined with mitigatory measures such as the cap and deferral mechanisms proposed by *Fairer Share*, would help to address the pressure placed by the policy on the subsection of the population who are asset-rich but cash-poor. And a system which allows areas to retain some proportion of the revenue raised should be more than sufficient to fund this, and to address the financial implications for housing associations.

A proportional property tax would help to address problems with our housing market and increase fairness in all parts of the country including London, and it should be supported on that basis.

APPENDIX: VALUE OF THE SOCIAL HOUSING STOCK

In figure 3, we presented estimates of the total value of England’s social housing stock by region.

Data on the average market value of social housing properties is not available, so we used data on the average market values for social housing properties sold under Right to Buy (DLUHC 2011, DLUHC 2021d, DLUHC 2021e). We have assumed that these properties are representative in terms of value of the wider social housing stock.

This data is available by region for the period 1998/99 – 2010/11, and for England as a whole for the period 1998/99 – 2019/20. We projected values for 2020/21 based on historical growth rates. We compared growth rates in (owner-occupier) house prices (HM Land Registry 2021b) and social housing property values over the earlier period, and assumed these relationships would hold in the later period. We used these to project social housing property values by region in the later period, based on house price growth over the same period. We then combined these estimates with data on the size of the social housing stock by region (DLUHC 2021f) to estimate the value of the total social housing stock by region.

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