

## THE FIRST STEP TOWARDS LVT: ABOLISH STAMP DUTY on Owner-Occupied Housing AND REPLACE IT WITH LVT

Where to start? Instead of demanding total implementation of LVT straight away, it would be politically more astute to call for some small change in the right direction, which introduces an element of LVT. But which of the various taxes on housing — Council Tax, Inheritance Tax, Capital Gains Tax, care home costs or Stamp Duty — offers the best prospect for the conversion to LVT?

**Tax Fairness: % who say which taxes are**

**fair or unfair**

*fairness = difference between fair and unfair*

Perhaps the line of least resistance is to ask which of these taxes on housing is least popular. After all, politicians want to be re-elected so it is natural for them to court popularity. According to a survey (right) of the general public this is what they think about the fairness or unfairness of a selection of taxes.

So let's start with the tax which the public consider to be the *second* most unfair, which as you can see is Stamp Duty. As well as its perceived unfairness, **Stamp Duty Land Tax<sup>1</sup>** (SDLT) to give it its proper, full title could be the best and

	FAIR	UNFAIR	<i>fairness</i>
Tax on cigarettes and tobacco	70	17	+53
Tax on alcohol	63	21	+42
National Insurance	56	21	+35
Income Tax	55	26	+19
Council Tax	42	38	+4
V A T	40	39	-1
Tax on petrol and diesel	31	51	-20
BBC licence fee	30	51	-21
Air passenger duty	24	46	-22
Stamp duty	21	48	-27
Inheritance tax	22	59	-37

<sup>1</sup> SDLT as described here may only apply to England. Scotland has had a Land and Buildings Transaction Tax (LBTT) since 2015. Wales will levy its own 'Land Transactions Tax' w.e.f. April 2018, the first ever devolved tax-raising power for the Welsh Assembly.

easiest tax to abolish and switch to LVT. As a bonus it even has 'Land Tax' in its name!

**The politics of SDLT.** SDLT is a nasty tax which hits house-buyers at a very vulnerable stage in their lives. Even so it is greatly favoured by Chancellors who have raised the rate of SDLT repeatedly. This has not led to the mass protests in the streets like those that broke out over Thatcher's Poll Tax which was introduced in 1990. Nor has there been much of a squeal of objections from the 'middle classes' beloved of the Daily Mail either. One reason for this passive acceptance was the spectre of the Mansion Tax. Opinion polls<sup>2</sup> had shown before the 2015 General Election that this proposed Council-Tax surcharge on properties worth over £2 million was very popular with the voters. To counter the threat of Mansion Tax, George Osborne, the Tory Chancellor was able to raise the rate of SDLT on such 'mansions'. It is a mark of his political cunning that he seemed to get away with introducing what seemed to be a less-bad quasi-mansion tax in the form of higher SDLT for properties worth more than £1 million.

There are other factors which make SDLT a not-so-bad tax-option. It is a 'voluntary' tax — you only pay if you buy a house. It certainly has the aura of tradition about it. Once upon a time an actual postage stamp to the value of two old pence (that's how much it was in the Ireland of my youth in the 1950s) had to be stuck on documents such as receipts to make them legal. SDLT also seems 'fair' because it attaches to a sum of money which is changing hands. The fact that it is the buyer, not the seller who has to pay the SDLT means that it is an extra cost on top of the purchase price. (Government documents make it clear that the buyer must pay. This tax differs from say Income Tax where the recipient of the money must hand over a portion to the state.)

It is also palatable because SDLT does not affect large numbers of voters. Only one or two million houses are bought each year (see graph below). So not many, say two or three million people get hit by SDLT. In an electorate of 46.5 million (2016) they are a small percentage. People have short memories and quickly forget an onerous one-off tax burden if it happened a year or so ago.

That's the good side of SDLT, and why Chancellors get away with it, even raising it from time to time. But SDLT has negative economic consequences. It hits house-buyers when their finances are most stretched. Having scraped and

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<sup>2</sup> <https://yougov.co.uk/news/2013/02/21/majority-support-mansion-tax/>

saved to get the money for the deposit, they are now called upon to find another large sum. Buying a house is a trigger for the purchase of lots of consumer durables, spending which stimulates the economy. But fond dreams of carpets, curtains and dishwashers may have to be put on hold to pay the SDLT. It is economically illiterate, too. Its lumpiness acts as a drag on the housing market, discouraging some sellers from putting their house on the market, putting off some buyers, too.

Labour Market Economists have also spotted the negative effect of SDLT. In their ideal world workers would face few impediments to moving to where the jobs are. If this involves selling your house and buying another, then this tax acts as a drag on free movement of labour. Since SDLT is imposed every time a house is bought, this is especially onerous on those heroes of the flexible labour market, the frequent job-changers and movers.

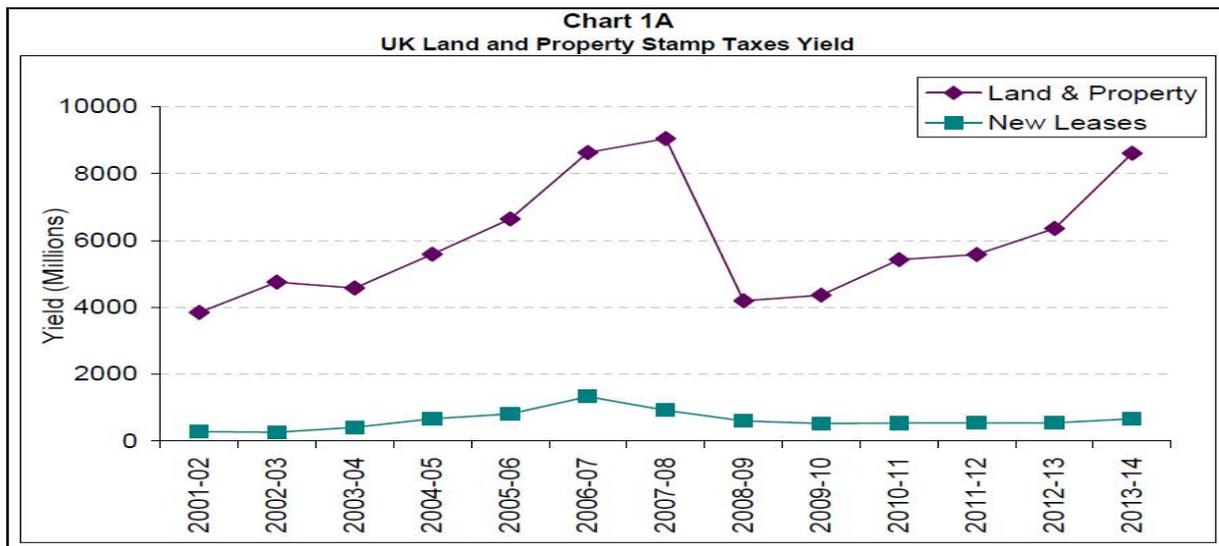
So SDLT is both unpopular and a tax which gives the wrong market incentives. It is ripe for reform or replacement, but abolishing altogether would mean losing a very traditional, long-accepted tax. Can we find a way to change SDLT for the better?

### **The Arithmetic of Converting SDLT to a Land Value Tax (LVT).**

Politicians will be very keen to know how much money is involved in any new tax and how it will affect different households. Let's look at the sums.

**The arithmetic of SDLT:** 'Stamp Duty' is not a huge revenue earner for the government. It brings in about 1.5% of the total that HMRC (the UK taxman) collects, that's £8.5 billion out of a total tax-take of £477 billion.

### The Yield from SDLT

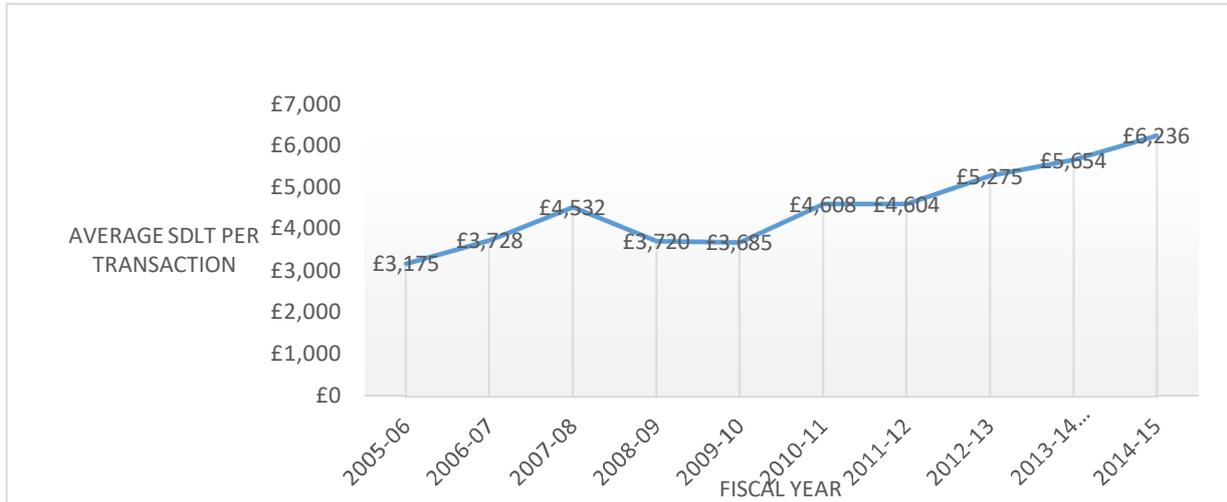


This graph<sup>3</sup> shows the total tax take from SDLT in the last few years. The yield from Stamp Duty peaked at around £9 bn in 2007-08, slumped precipitously post the GFC (Great Financial Crash), and by 2014 had climbed back to almost the same level. Although the *rates* of SDLT have been raised, the number of transactions has risen and fallen as the fortunes of the housing market have changed. Back in the year 2007, just before the Crash there were 1.8 million houses traded. After the slump this had dropped to less than 700,000 in the 2009. Volumes have recovered a bit since then, but not by much, and are still way below the peak. This matters in terms of revenue, because SDLT is only levied when a sale is made, so fewer sales mean less tax revenue for the Chancellor.

<sup>3</sup> [www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/358908/AnnualStampTaxes-Release-Sep14.pdf](http://www.gov.uk/government/uploads/system/uploads/attachment_data/file/358908/AnnualStampTaxes-Release-Sep14.pdf)

Putting these two factors together — rates of SDLT and number of transactions — let's have a look at the average SDLT revenue for each house bought:

### Revenue per Transaction, and how it has changed 2005-2015



(These are my own calculations based on figures in previous references)

It is clear that the Chancellor has been squeezing this source of revenue, with average contribution going up from £3,000 to over £6,000 per property sold. Averages can be deceptive. One quarter of all transactors are exempt and pay no SDLT). A small number will be hit for huge amounts. If you buy a house for £1 million, in 2016 the SDLT bill is £43,750. The impact of SDLT is concentrated geographically as well, with just a handful of high-priced boroughs mainly in London and the South-East accounting for a high proportion of all SDLT the paid.

### The effect of Converting the 1-off SDLT into an annual LVT

Two of the worst features of SDLT could be fixed straight away.

—Instead of a lump sum at the time of the sale, it could be converted into a continuing annual payment. This is where we can slip in the idea of land value tax; after all this tax is Stamp Duty **Land Tax**. The offer to the buyer is that instead of being hit with a lump every time the house is bought or sold, there will be a smaller on-going payment of an 'Annual Ground Rent' or LVT.

—Regular movers, the heroes of our wonderful flexible economy, keep being hit repeatedly by SDLT. The change to AGR/LVT would fix this, by

exempting all future buyers from SDLT. This would show up as a benefit a few years hence when it comes to re-sale.

Whatever is proposed should be revenue neutral, keeping up the revenue stream for the Chancellor. Will the amount be sufficient *eventually* to provide a similar or better flow of revenue for the Chancellor? I say 'eventually' because the Chancellor, rational fellow that he is (it has never been a she), will realise that a future flow of funds can be discounted back to an equivalent present-value lump-sum.

Detailed calculations are given in my website<sup>4</sup> of how I worked out the AGR/LVT which could be substituted for the one-off SDLT (but which would have recurred at each subsequent sale).

So here's the bottom line

**SDLT could be converted to an AGR of **0.5 %** of the Land Value.**

(LV re-rated annually by Land Price Index for the area or re-valuation of the plot or by CPI)

and the slogan might be

*"House-buyers: Don't pay a big lump of SDLT now! Spread your payments out as a yearly charge of just one-half of one percent of the value of the plot of land your house is built on!"*

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<sup>4</sup> this can be found on my website [www.conallboyle.com](http://www.conallboyle.com)

**Typically, who pays how much of the new AGR in different parts of England and Wales?** Here are some typical amounts that ‘average’ home-buyers can expect to pay annually in different parts of England and Wales.

Area	£sale price	Implied LV	LV % of sale price	AGR/LVT at 0.5% of LV p.a.	Old £SDLT 1-off
Cluster*	150,000	£30,000	20%	£150	£500
East Anglia	220,000	£100,000	45%	£500	£1,900
SouthWest	230,000	£110,000	48%	£575	£2,300
South East	350,000	£230,000	66%	£1,150	£7,500
London	500,000	£380,000	76%	£1,900	£15,000

\*Cluster = other less affluent regions: N, NW, NE, WMids, Yorks and Wales (Again, the basis for these calculations is given on my website)

**Will the Taxman lose out?** The short answer is No. There will of course be an initial drop in the revenue, but after about eight years, it will be back up to the same level. Repeat sales on already AGR-ed properties will be a further loss, but two factors should significantly boost revenues. Land values will be adjusted annually usually upwards, and in line with inflation. Best of all will be the boost from increased turnover. If the economists’ condemnation of SDLT is valid, then currently there are quite a few sales of houses which have been discouraged. The new AGR/LVT will result in some more houses being put on the market, especially for the ‘timid sellers’ like the elderly worried about trading down.

**Does the housebuyer *really* benefit from this small AGR/LVT?**

Rational house-buyers are being presented with a fairly poor bargain here. In many cases they would be better off extending their mortgage to pay the old SDLT, rather than accept an annual (and rising) payment. Even so they may be happy to accept this: Experimental economists have found that most consumers do not take a very long view, are not ‘rational’ in an economic sense. Having a bit more cash in hand just after a house purchase will enable some highly

desirable purchases like carpets and curtains, which it would have been disappointing to defer.

**Now we have a small LVT for owner-occupied houses<sup>5</sup>: How to extend its scope**

The *speculative house-builders* who produce the houses are an obvious next place to extend the scheme. While waiting for the market to turn up they adopt a business strategy of sitting on their land-banks. As proposed, the new LVT (replacing SDLT) would only apply when the builder sells the new-built house. It would not take too much adjustment to make LVT apply shortly after Planning Permission is granted. This would then create the best form of incentive for builders to get on with making quicker use of their land-banks.

On the same principle, *planning applications for extensions* on existing property can be used to lever in LVT, with the added spur of retroactive imposition where a crafty but undeclared extension has been added. Transfers between individuals without payment could also be a trigger for LVT. As time goes by, many more, maybe 40-50% of all houses will be subject to LVT.

After about 10 years we can expect that more than half of all homes will be subject to this new LVT. Maybe after 15 years 75% of all homes will be included in the LVT net. It will then look odd that the remaining 25% of houses that have never changed hands will dodge this annual charge altogether. Politically the next bit will be tricky.

Would it be fair to just apply LVT to all those houses which have remained in the same hands, without extension-building or transfers? Maybe it be best to wait until death, debt or divorce clears out the rest, as it will eventually. At some point when the numbers are small enough, it might well be safe enough to take the political risk (as Gordon Brown did in 1997 when he abolished the last vestiges of MIRAS).

**The real benefit of the abolition of SDLT and its replacement by LVT**

This is something popular that can be done straight away. It is voluntary—nobody has to buy a house, or build an extension, which helps get it accepted. It gets rid of an inefficient and unfair tax. In the long-term there may be a chance to squeeze out a little bit more tax revenue. Perhaps the best feature is that it

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<sup>5</sup> Remember I am only looking at o-o sector. Private rented properties and social housing may also be included in this new LVT, but the effects do not concern me here (and the current 2016 rates of SDLT are different too!).

makes 'land value tax' familiar, making it part of normal political discourse (Policy geeks call this the Overton Window).

Another big positive will be getting the administrative and technical mechanisms for LVT in place. The procedures for valuing land separately from the building is not a problem for any competent surveyor, but agreed procedures will have to be established. These procedures are crucial for any effective tax regime. (RICS provides useful guidance in their 2008 publication *Valuation of Development Land*).

I have said nothing here about the two main rented sectors — the private land-lord sector, where new punitive rates of SDLT have been applied, nor the social land-lords who operate rented property for the benefit, mainly of the less well-off. It should not be too difficult to include them in a unified SDLT-LVT scheme.

But probably the biggest hole in my argument is the winners and losers. There will be some big winners, especially those in expensive properties in the South- East. They will quietly pocket their gains and lie low. Not so the 25% of house-buyers who buy a house priced at under £125,000. They are being asked to pay a new tax, when previously they paid nothing. In my next posting I will try to get around this dreadful political stumbling block. This is the world of real politics as it affects ordinary people. If advocates of LVT don't recognise these concerns, then their Grand Schemes however compelling, however passionately stated are doomed to be tossed in the dustbin of history.