

Yes, let's tax home ownership

Written by Richard Teather (September 2009)

Vince Cable's proposed 'mansion tax' on high-value homes has come in for a lot of flack, including from the [ASI blog](#). But is it justified? Despite all the debate, I have still not seen a good argument against it that does not apply equally to parts of our existing tax system.

I agree that's probably a sign that our entire tax system is in dire need of fundamental reform - but that's not likely to happen. The question is not whether a homeowner tax is a good thing in itself, but whether it could - with the money used to reduce income tax - be an improvement on the existing system.

Yes there are some problems with Cable's proposal - by taxing only high-value homes and using the money to raise the personal allowance, it is a redistribution primarily from a minority living in the south east (mainly but not all wealthy) to workers on below-average incomes.

But let's look at the general principle rather than this particular design. What are the main objections to this type of tax, and how valid are they?

It's a wealth tax, and wealth taxes are bad

Yes, it looks like a wealth tax. But economically it's more like an approximate income tax on the annual benefit of living in the house - taxing the return on your investment. And Cable's proposed 0.5% charge is effectively around 15% of the likely rental value - quite low by UK income tax standards.

It will discourage purchasers and so reduce property prices

Yes, but that's a general objection to income tax - taxing anything discourages that activity. We

currently tax, and therefore discourage, employment, entrepreneurship and investment - surely

that's worse. The homeowner tax will equalise the treatment of different investments, and if the

money is used to reduce the income tax rate it will reduce the disincentive to work and save.

It's my property - why should I have to pay tax on it?

Yes, but again that's a general objection to income tax. Your investments, your work, your business ideas are being taxed now.

I worked hard to buy it - I shouldn't be taxed now

Yes, but again that applies to all income tax. Is it any more unfair than taxing the salary you worked hard for in order to pay the mortgage?

The house was paid for out of taxed income - this is double taxation

Yes, it is economic double taxation. But we already do the same thing to investment income. If

double-taxing home ownership is bad, surely it's even worse to do it to investment in productive businesses.

It's unfair on the 'asset rich, cash poor' elderly

Yes, it will disadvantage them compared to the current system. But the current system disadvantages the 'asset poor', primarily young families who are trying to buy a house.

Getting a

mortgage to buy an average house needs a salary of around £50,000 – which means you'll be

paying higher rate tax. Is one really more unfair than the other?

It can't be an income tax - there's no income

Yes, you don't get any cash from your home. But by living rent-free there is an advantage equivalent to an income. And there's nothing new about taxing non-cash benefits – we've done it

to employees for decades (company cars, health insurance and many other 'benefits in kind'); this

just extends the same practise to property.

It's difficult to collect

Yes, but that's a tax collectors' objection, not a principle. The Treasury loves taxing salaries because it hopes that we won't notice how much they are grabbing through PAYE, but supporters

of low taxes should be encouraging tax visibility. The few really problematic cases, such as the

elderly widow with no income living in the ancestral manor, can be dealt with through a postponement system with the Treasury taking a charge on the property to be redeemed on her death.

It's based on an estimate

Yes, and so there will be inaccuracies, costs and disputes. This is probably the strongest argument

against the property tax, but taxing estimated property values is nothing new. Houses are already

valued into fairly narrow bands for council tax, and expensive homes frequently have to be valued

for inheritance tax.

So I can't see any objection that wouldn't also mean abolishing income tax (which might not be a bad

thing, but isn't going to happen any time soon). Indeed we could go further than Dr Cable, and integrate

the homeowner tax into the income tax system. Instead of a half percent tax on values over half a

million, we could estimate a notional rent for all owner-occupied housing and add it to the occupiers'

taxable income. But only, repeat only, if the money raised is all used to reduce income tax.

How much money are we talking about? The LibDems expect their proposal to raise £1 billion, but a fully integrated homeowner tax, at full income tax rates and with no threshold, should bring in about £25 billion. That's enough to reduce income tax by 5p, cutting tax rates from 20% and 40% to 15% and 35%. Effectively it's the same approach that Lawson applied to business tax – broaden the tax base in order to cut the tax rate. Yes, overall we'd be paying the same amount of tax, so there would be winners and losers. But crucially the marginal rates – the tax paid on extra effort, each additional pound earned or saved - would be significantly reduced, which should boost the economy. And our competitive position within Europe, weakened by a decade of Brown stagnation, would be restored. I know; I hate recommending new taxes. But this one could actually work.

Source: <http://www.adamsmith.org/think-piece/economy/yes-lets-tax-home-ownership-200909284187/> Viewed on 8 December 2009