



Some questions on the Mansion Tax

A briefing note

Could a Mansion Tax help close the deficit?

There are roughly 75,000 residential properties in the UK worth more than £2 million (the most frequently mooted threshold for a Mansion Tax). If the average net Mansion Tax received from these properties was £20,000 a year, the total raised would be £1.5 billion. That is equivalent to just 0.25% of government revenues.

- Would advocates of a Mansion Tax seek a higher average net payment to make a meaningful contribution to tax revenues?

Would it be an efficient tax?

The market for high value properties is highly discretionary. Accurate valuations are therefore difficult to establish. Yet a value would need to be agreed for every home above the threshold, and presumably many more below it.

- By how much would the costs of accurately valuing those properties liable to the tax, plus the legal costs of numerous potential challenges to valuations, reduce the net revenue from a Mansion Tax?

Do we need more property taxes?

The UK already has by far the highest property tax take of any OECD country: property taxes contribute 4.2% of GDP compared to the OECD average of 1.8%. Within that, high-end property owners already pay a disproportionate amount.

Are high value residential properties currently under-taxed?

The highest 1.6% of sales (with a sale price over £1 million) yielded 26% of all residential stamp duty land tax (SDLT) receipts in 2010, while the top 0.7% of housing stock held at death contributed 36% of inheritance tax receipts from residential property. Since then, the rate of SDLT for properties worth in excess of £1 million has risen by a 1% (to 5%) while the standard rate for £2 million+ property has been increased by a further 2% (to 7%).

This suggests that the same top 1.6% of sales would have accounted for 34% of all residential property SDLT receipts under the revised SDLT charging structure. In addition SDLT avoidance has been addressed in various measures introduced and proposed in the 2102 budget, a side effect of which would be to bring more high value properties within the inheritance tax net.



Do we need more taxes?

Between 1996/97 and 2007/08, average government spending as a proportion of GDP was 38.8%. Last year it was 45.8%. In contrast, tax receipts as a proportion of GDP were 37.5% last year compared to an average of 37.6% between 1996/97 and 2007/08. It is spending that is out of control, not taxes.

Is it “fair”?

Consider the following cases:

- It would hit the “asset-rich, cash-poor” hard. 31% of properties in London worth over £2 million have been in the same ownership for over 10 years, 15% over 20 years. Many of these long-term homeowners may well be unable to pay a new tax averaging £20,000 and would thus have to take out equity release products or sell their homes. Is that fair?
- If payments from the cash-poor, asset-rich were to be deferred until death and added to the existing inheritance tax burden (as has been suggested by advocates of a Mansion Tax), by how much more would the average net payment have to be from other home-owners to raise a similar amount for the Treasury?
- Person A lives in a house valued at £5 million, but has a £4 million mortgage, meaning his net wealth is £1 million. Person B lives in a house worth £1.9 million, but without a mortgage. Person B’s net wealth is therefore £1.9 million. Person B is nearly twice as wealthy as Person A but would not be liable whereas Person A would be. Is that fair?
- Alternatively, Person C owns a property worth £3 million. Person D owns two properties, each worth £1.9 million. Only Person C, who owns less, would be liable. Is that fair?

What is wealth?

Advocates of wealth taxes have only included property taxes. But there are of course many other forms of wealth (financial assets, art, jewellery etc).

- Why is someone living in a £5 million home considered any wealthier than someone holding £5 million in cash, or £5 million in shares?

Do wealth taxes work?

In the UK, the most recent attempt to introduce a wealth tax was made by Denis Healey (in 1976). In a memo marked “secret”, HM Treasury then advised that the proposed wealth tax “would produce little revenue, be extremely difficult to administer and risk serious damage to the economy”. Denis Healey later noted that: “We had committed ourselves to a Wealth Tax: but in five years I found it impossible to draft one which would yield enough revenue to be worth the administrative cost and political hassle.”

- Why have other countries abandoned wealth taxes in recent years (Austria, Denmark and Germany abandoned them in 1997, Finland, Iceland and Luxembourg in 2006, Sweden in 2007 and Spain in 2008)?



Is it consistent with other Coalition policies?

One of the main justifications for the Dilnot proposals to cap the costs of long-term care – which have been welcomed by the Coalition – is that many individuals are today obliged to sell their homes to pay for their care. In other words, the Dilnot proposals are aimed at helping people to retain their homes even if they are not living there. The Mansion Tax, in contrast, would drive people out of their homes while they are still living there.

- Why is the Coalition considering a new tax to achieve the very opposite of what it is trying to achieve in other social reforms?

Aren't property taxes better than other taxes?

Supporters of the Mansion Tax often cite an OECD study which shows that taxes on property or land are less distortionary than other taxes. That may be true, in theory – but only if the property tax were a broad-based tax (i.e one which the majority of taxpayers paid). Only the owners of the 0.3% of properties that are worth more than £2 million would be liable to pay a Mansion Tax.

- Do those who advocate a Mansion Tax on these grounds accept the logic that the threshold should be substantially lowered? If so, to what level?

Would it be distortionary?

HM Treasury introduced a new stamp duty rate of 7% on properties over £2 million in the 2012 Budget. In the following five months the number of luxury homes sold by Savills for between £1.8 million and £2.0 million rose by 37% in comparison to the same months in the previous year. By contrast the number of sales between £2.0 million and £2.2 million fell by 29%. In other words, high property taxes have an immediate impact on behaviour (and, according to the economic orthodoxy, should therefore be considered as bad taxes).

Are proposals for a Mansion Tax inspired by low politics or high economics?

Following the 2012 Budget, it was said that various tax measures targeted at the well-off had been introduced to compensate for the lowering of the top rate of Income Tax from 50% to 45%. These measures included a general anti-avoidance tax rule, the “philanthropy tax” and the new 7% stamp duty band for £2 million+ properties.

- Would a Mansion Tax be a politically convenient way of defusing controversy over reported plans to freeze benefit levels for two years (and then re-index it with prices, not earnings)?
- Or, to use the current political lexicon, is the real justification for the Mansion Tax just to show that “we are all in this together”?