



The Proportional Property Tax

**MANIFESTO**

# ENDORSEMENTS



Abolishing Council Tax and Stamp Duty and replacing them with a fairer property tax is the right thing to do for millions of people up and down the country. It is also the right thing for the Conservative Party to do if we are serious about delivering to those who voted Tory for the first time in a generation. This policy can help us turn the Red Wall into a Blue Barricade.

**Aaron Bell, Conservative MP for Newcastle-under-Lyme**

The arguments for taxing property and land rather than labour and capital investment are well established. The unfairness and arbitrariness of the current property tax regime, through council tax, are however so egregious that reform is urgently required. An annual proportional property tax is much more satisfactory and the practical questions have now been thought through.

**Sir Vince Cable, Former Leader of the Liberal Democrats and Former Secretary of State for Business, Innovation and Skills**

A move to a proportional property tax tends to favour lower-value properties, which will pay less property tax than the current system, particularly in property poor English LAs such as Burnley, Newcastle-upon-Tyne or Leeds. A proportional property tax has a clear potential role, therefore, both in delivering the Government's 'levelling up' agenda and in ending the unfairness of the property tax system.

**Professor Paul Cheshire, Professor Emeritus of Economic Geography at the London School of Economics; Professor Christian Hilber, Professor of Economic Geography at the London School of Economics**

At what is such an important time for our economy, there is now a real opportunity to come up with long term solutions to deal with geographical inequalities. One of those is the current property tax system. The proposals from Fairer Share would reform the system to simplify property taxes, introducing a proportional property tax which would see a huge boost for households on the lowest incomes

**Dehenna Davison MP, Conservative MP for Bishop Auckland**

For too long older generations have used housing as a form of investment: the result has been sky-high house prices, and older generations feeding off the incomes of young people. We welcome a proportional property tax which, if adopted, will help to tackle the unearned windfall gains made by older generations.

**Angus Hanton, Co-founder of the Intergenerational Foundation**

It is vital, as we recover from COVID-19, that we continue to level up those areas repeatedly and scandalously left behind. I see this as a fair and fundamentally Conservative way to put more money back in people's pockets and for them to spend as they see fit as they ultimately know best.

**Kevin Hollinrake MP, Conservative MP for Thirsk and Malton and Chair of the Property Research Group**

The Government should consider options for wider reform of council tax and business rates, including possibly replacing them with a proportional property tax.

**Housing, Communities and Local Government Committee**

# ENDORSEMENTS



But how long are we going to maintain the absurdity of charging people on the basis of prices 30 years ago? What happens when it gets to 50, or even 100 years? This is not a “mansion tax” or anything like it: it is effectively how much you pay for “consuming” the property you are living in.

**Russell Lynch, Economics Editor of the Daily Telegraph**

Analysis from the Fairer Share campaign shows that moving to a proportional property tax would not just mean lower bills for most households, it would also free up thousands of homes for people who need them.

**John McDonnell MP, Labour MP for Hayes & Harlington and former Shadow Chancellor of the Exchequer**

If councils are interested in their long-term sustainability, and we are all invested in the betterment of our residents or constituents, then in my view there is no better option than to replace our current system with a proportional property tax

**Grahame Morris MP, Labour MP for Easington and former Shadow Secretary of State for Communities**

The housing market has been a significant driver of wealth inequality in the UK over the past thirty to forty years. Ultimately, we conclude that reform is needed to ensure a fair social contract. Moving from our current system of property taxation to a proportional property tax would help to achieve this. It would help to address wealth inequality, intergenerational inequality and regional inequality, and make our economy stronger.

**Shreya Nanda, Economist at the Institute of Public Policy Research**

While the current system is regressive and distortive, an a proportional property tax would change this by rebalancing expected property tax liabilities and putting money in the pockets of those from modest backgrounds and areas.

**Sam Robinson, Senior Researcher at Bright Blue**

I would encourage the chancellor to be a reforming chancellor and look at ways to improve the tax system through simplification, but also addressing areas of unfairness. These proposals around reforms to council tax and stamp duty are very welcome and ones which I would support.

**John Stevenson, Conservative MP for Carlisle**

We welcome this new report from the Fairer Share campaign, pushing for bold reform of property taxes in England to help support levelling up and intergenerational fairness. It is vital that property taxes are reformed to address the multiple, complex challenges of local authority funding, devolution and fair tax treatment for families and businesses and this report represents an important step forward for the debate.

**Alfie Stirling, Director of Research & Chief Economist at the New Economics Foundation**

The cost of housing is holding back the younger generation. We need to get more housing onto the market for them. A Proportional Property Tax is key to this. It would replace Council Tax which has become increasingly regressive and is particularly hard on young people.

**Rt Hon Lord Willetts, President of Resolution Foundation's Intergenerational Centre and author of The Pinch**

## BACKGROUND

The decade since the global financial crisis of 2008 has been one of deepening social discontent and growing political frustration.

Many have pointed to extreme levels of inequality as a source of these frustrations: the top 10% of UK households possess 45% of all wealth, while the bottom 50% own just 8%.<sup>1</sup> On one common measure, the UK is Europe's third most unequal country, with only Lithuania and Bulgaria ranked worse.

The detrimental effect of this inequality can be clearly seen in people's views on societal fairness. A recent survey of the British public found that 71% of people feel there's "one rule for some and a different rule for people like me" while 69% agreed that "rich people get an unfair advantage". In contrast, just 30% felt that "British society as a whole is fair".

While our collective struggle to overcome the pandemic is bringing out the best in many and strengthening communities cohesion, it has also ruthlessly exposed existing social and economic divides.

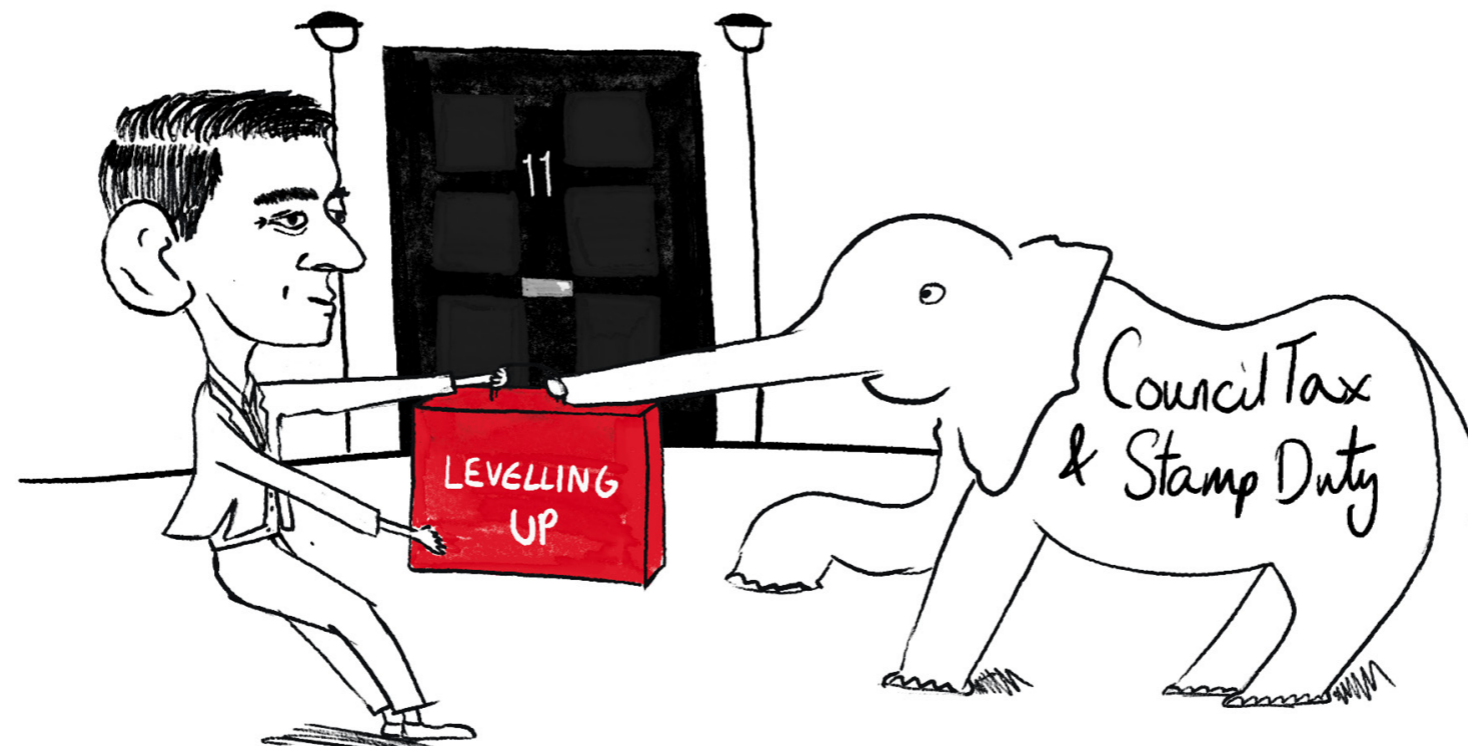
Though the disease has been described by some as the "great leveller", in reality it is inflicting a heavier toll – in terms of both health and income – on those with pre-existing health conditions, individuals in low-paid and insecure work and ethnic minorities.

Compare the white-collar workers, who have the ability to work from home, receive sick pay and have access to savings, with the freelancers and gig economy workers who lack such protections and must continue working, despite the clear risks to their health.

Moreover, our ability to respond effectively to the crisis has been limited by almost a decade of underfunding of public services, cuts to pandemic planning programmes, PPE shortages and holes in our social care and welfare system. The pandemic has also widened pre-existing regional disparities - closing the gap has become even more challenging.

Once the immediate crisis is over, a fairer tax system will be required to narrow Britain's gaping social divides and give our essential public services the resources they need to be truly resilient.

Reforming Britain's unfair property taxes must be part of the solution.



## OUR SYSTEM OF PROPERTY TAXATION IS UNFAIR AND OUT OF DATE

Our current property taxes allow those who can afford the most valuable homes to pay very little, while placing an unreasonable burden on homes worth less.

In addition, they fail to encourage the efficient use of our limited supply of housing, under-taxing larger and often underused properties, and penalising people when they move home.

This affects all of us. Whether we own or rent, we all pay property taxes and we are all affected by how well designed they are. We all benefit from the local public services and infrastructure which they fund. When these taxes are not working effectively, we lose out as a society. Two taxes are largely responsible for this state of affairs: Council Tax and Stamp Duty.

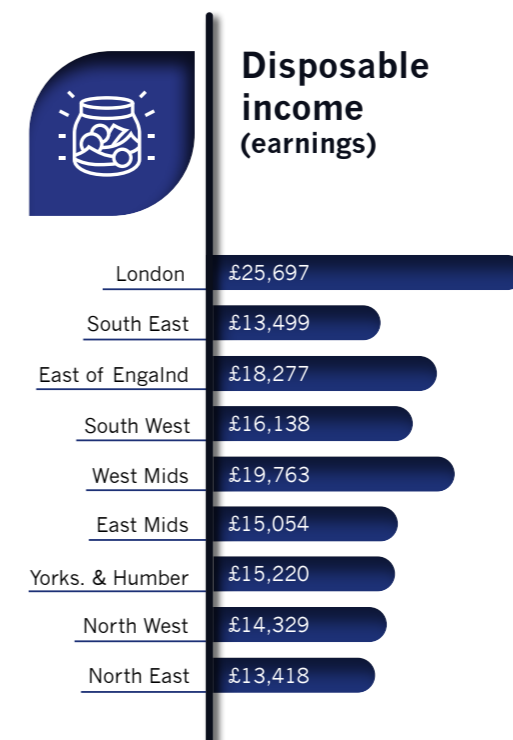
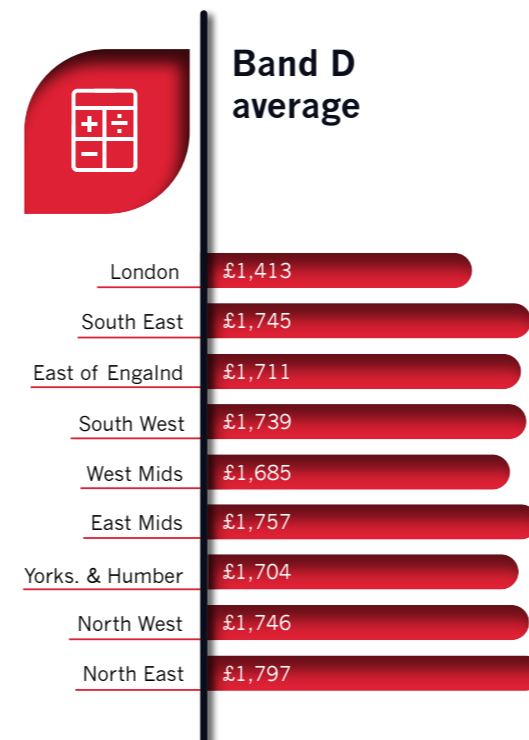
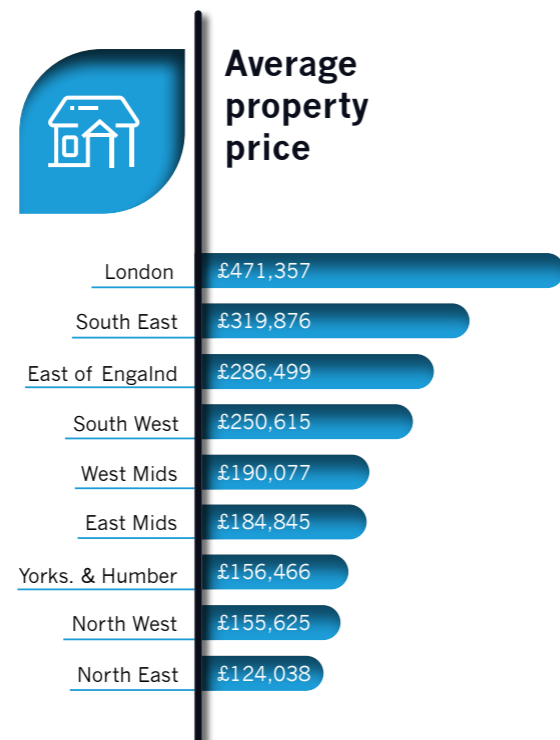
## COUNCIL TAX - THE NEW POLL TAX?

Introduced almost three decades ago in 1993 as a rushed replacement for the even less popular Community Charge, better known as the “Poll Tax”, Council Tax itself now displays many of the same characteristics as its predecessor.

Council Tax is poorly designed, out of date, unpopular and unfair. The general public recognises this, and for these reasons, Council Tax has come under attack from every corner of the political spectrum.

Original polling and focus groups conducted by the Fairer Share team demonstrate that people view Council Tax as unfair and in need of reform.<sup>6</sup> Just 29% of the public believe that the way Council Tax is calculated is fair, and only 26% believe that their own bill is set at the right level. Unsurprisingly, there is limited support for maintaining the status quo, with just 33% of people in favour of keeping Council Tax unchanged.

Council Tax places the heaviest burden on the young, low-earners and those living in less prosperous parts of the country, who typically live in modest properties, while benefiting wealthy homeowners and those fortunate enough to own multiple properties. Property values have skyrocketed for the asset rich and Council Tax bills have increased but average incomes have stalled. New analysis by leading think tank, Onward, shows that the amount of disposable income households spend on Council Tax varies from 0.8% to 4.5%, with those in the north east and south west paying the most and those in London the least. This is not what is expected of a fair tax.

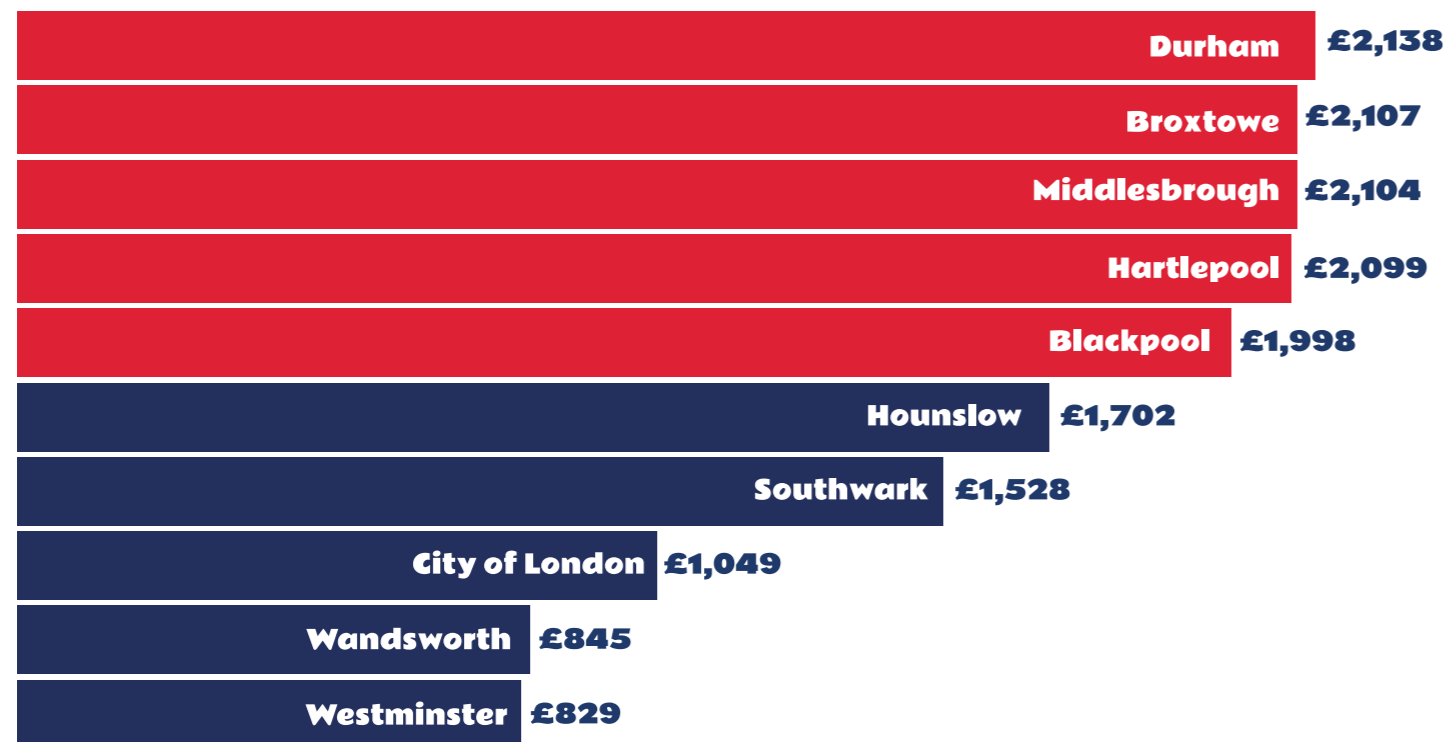


## TWO REASONS WHY COUNCIL TAX IS UNFAIR

Firstly, Council Tax is based on property valuations that are almost thirty years out of date, despite huge growth in house prices, particularly at the top of the market. This means that those who have benefited the most from house price growth have also been the biggest beneficiaries of the Council Tax system.

### THE UNFAIRNESS OF COUNCIL TAX

Since the introduction of council tax in 1993, average bills in the **Midlands & North** of England have risen far more than those in more prosperous areas.

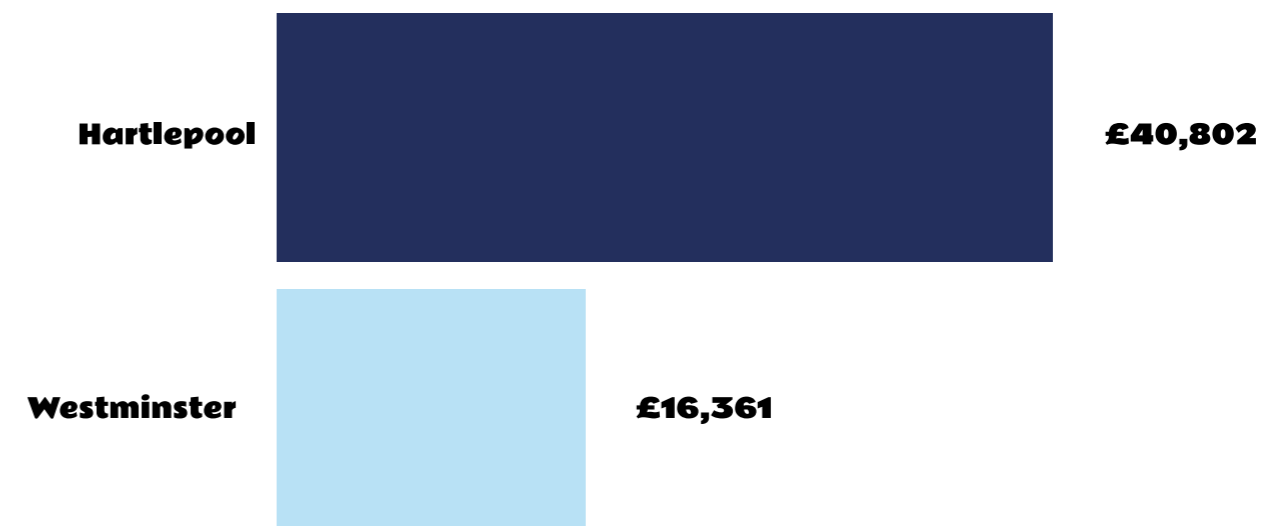


Secondly, due to the band structure itself – in which all properties in a specific band pay the same amount – homes at the bottom of each band pay proportionately more than those at the top of each band.

These flaws mean that Council Tax is only weakly linked to property values. A person living in a property worth £100,000 pays around five times more tax, as a share of property value, than someone living in a property worth £1 million.

Or, to give a concrete example, compare the Council Tax bill of £1,858 paid by a modest property in Hartlepool worth £150,000 with the £1,655 paid by a £8 million home in Westminster. The Hartlepool property is paying over 1% of the value of the house in tax, whereas the Westminster property is paying just 0.02%.

### HOW MUCH HAS THE AVERAGE HOUSEHOLD PAID IN COUNCIL TAX SINCE 1994?



Council Tax is stacked in favour of the wealthy.<sup>7</sup> It doesn't make any sense – we don't charge a higher rate of VAT on a Ford than we do on a Ferrari, so why should this be the case with property? Under a fair system, everyone would pay the same rate of tax as a proportion of property value.

## TWO REASONS WHY COUNCIL TAX IS UNFAIR

Meanwhile, younger adults and lower earners are concentrated in lower Council Tax bands, and therefore pay higher effective tax rates than wealthier and older households.

The problems with Council Tax do not stop there. It is riddled with well-intentioned but distortionary exemptions for second homes and single occupants; this encourages under-occupation and fails to provide support to those who need it most.

Recent government data shows that over 216,000 homes have been empty for over six months, while a whopping 7.7 million homes claimed the single occupant discount in 2018.<sup>8</sup> One recent study by academics at UCL estimated that housing worth a total of £123 billion in Britain is rarely used.<sup>9</sup>

Council Tax places the burden on those least able to pay, as is powerfully illustrated by data on Council Tax debt.

As of March 2019 the total amount of outstanding Council Tax debt in England was £3.2 billion, an increase of over 20% in just four years.<sup>10</sup>

Research by the Money Advice Trust shows that Council Tax arrears account for 60% of cases sent to bailiffs by local authorities, while analysis of Citizens Advice data by the Centre for Social Justice reveals that Council Tax debt-related complaints have increased by 45% in under a decade.<sup>11</sup>

In some cases unpaid tax has even led to criminal penalties, with 305 people sentenced to prison and 6,278 receiving suspended sentences in 2017-18 for Council Tax arrears.<sup>12</sup> In addition to the human cost of this policy the government is spending over £300mn13 each year to collect these debts.

These damning figures starkly illustrate the devastating impact Council Tax is having on some of our most vulnerable members of society. This is why a complete overhaul is urgently required.

## ALL AREAS IN BLUE PAY A HIGHER RATE OF COUNCIL TAX THAN THE NATIONAL AVERAGE



SOURCE: ONS GEOGRAPHY PORTAL AND OPENDATANI

## THE ECONOMIC HARM OF STAMP DUTY

Council Tax's partner in crime is Stamp Duty. A tax levied when property or land changes hands, Stamp Duty is collected on transactions worth over £125,000, with discounts offered to first-time buyers purchasing properties worth less than £500,000.

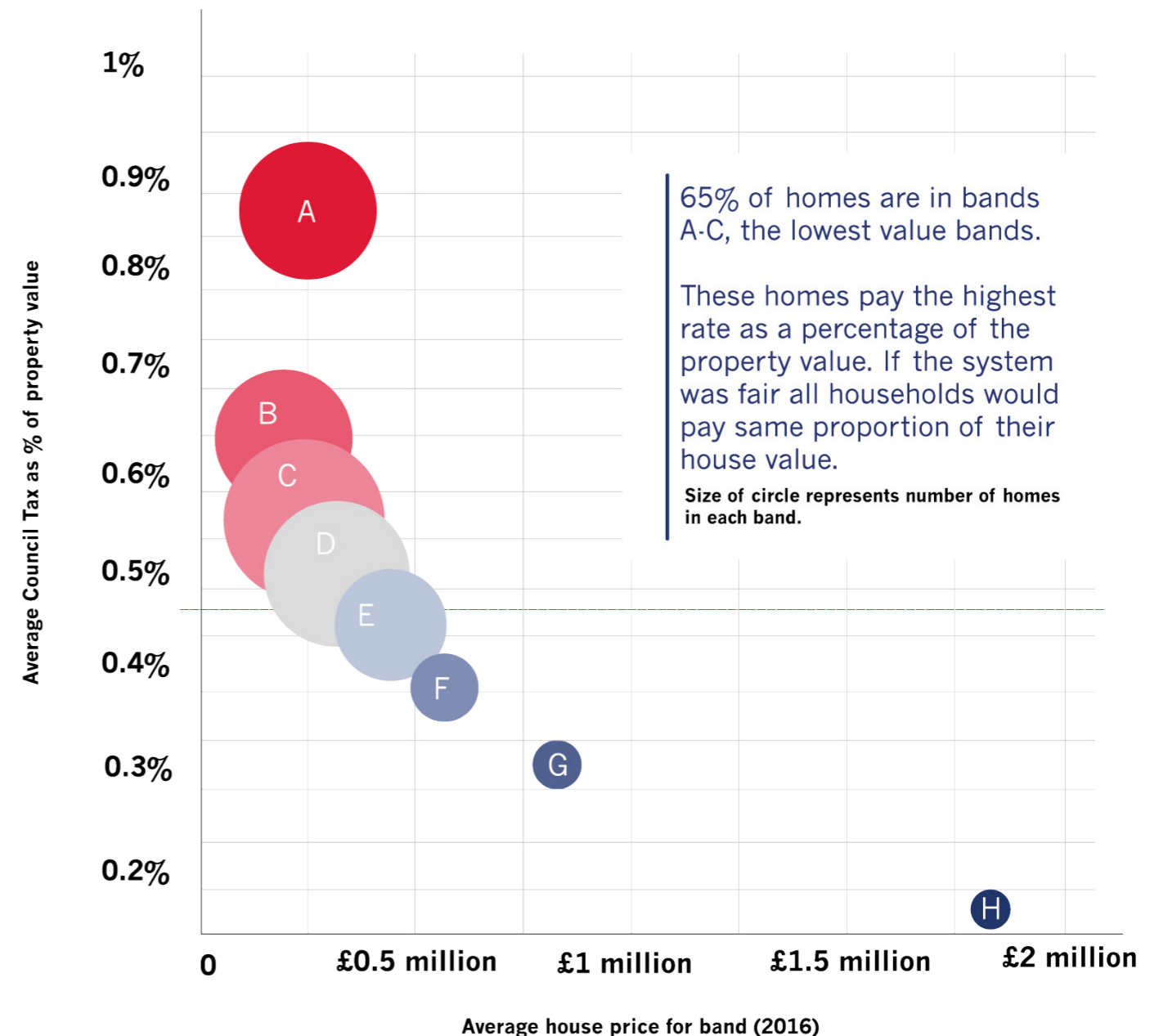
The good news is that Stamp Duty is not as poorly designed as Council Tax. It is progressive, in that the tax rate increases based on the amount paid by the buyer. It is linked to actual property value, and it is more generous to young people thanks to its first-time buyer discount.

Nevertheless, we would be better off without it. Described as “economic nonsense” by Paul Johnson, Director of the non-partisan Institute for Fiscal Studies, Stamp Duty – like Council Tax – has worsened the housing crisis by impeding the efficient use of existing property.

By taxing property transactions, Stamp Duty discourages homeowners from moving – be it an older couple downsizing or a growing family upsizing – that would lead to a more effective use of housing. This has wider economic consequences when it leads to people turning down job opportunities outside of their local area due to the cost of moving home. In their report, “Pulling Down the Ladder”, the IPPR suggest this could increase GDP by over £3 billion per year

The Chancellor's Stamp Duty holiday gave the UK property market a much-needed boost during the COVID-19 pandemic but it also highlighted the merits of abolishing it altogether. Introducing a Stamp Duty holiday stimulated the housing market for a short period of time, before seeing house sales tumble once it ended. It's clear the tax hinders both efficient use of the housing stock and residential mobility.

As we have seen, Council Tax and Stamp Duty are unfair, inefficient and harmful to the economy and wider society.



## A DEEPENING HOUSING CRISIS

The housing crisis has been a key contributor to the weakening of social cohesion.

The prospect of home ownership is increasingly a distant dream for younger generations and all but the highest earners, particularly in large cities.

This is reflected in figures showing that while 87% of the public would like to own their home<sup>14</sup>, just 64% of households are owner occupiers – falling from 71% two decades ago. Among young people, home ownership has fallen by a third during this period.<sup>15</sup>

Shockingly, in 2019, the Local Government Association found that only 11% of those born in 1996 are on the property ladder and young people are now half as likely to own a home as previous generations. Similarly, the proportion of people in England aged 35–44 living in private rentals jumped from 9% to 28%.

Meanwhile, members of older generations who bought their homes many years ago find themselves living in properties which may well be too big for them now, but they are reluctant to downsize due to the cost of paying Stamp Duty on their next, albeit smaller, home.

The causes of the housing crisis are complex and diverse, and include inflexible planning rules, resident opposition, insufficient public investment and “landbanking” by private construction firms.

Council Tax and Stamp Duty have also played their part by fuelling house price inflation and encouraging the inefficient use of property and land.<sup>16 17</sup> By failing to keep up with eye-watering house price growth over the past three decades, Council Tax has deprived the government of crucial tax revenues and artificially increased the relative attractiveness of housing as an investment, inflating the housing bubble.

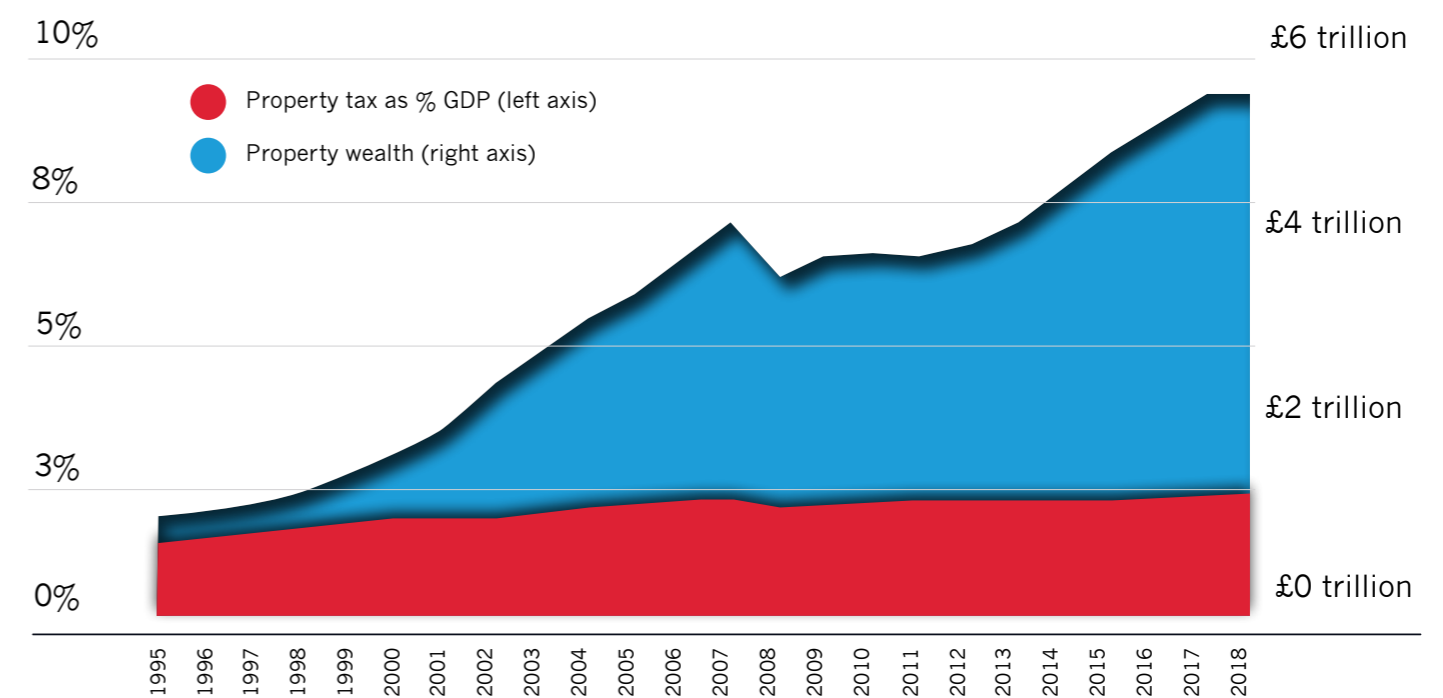
The result is that owner occupiers are increasingly being crowded out by investors and purchasers of second homes, who now make up roughly a quarter of all residential property sales.<sup>18</sup>

By under-taxing larger and more expensive properties relative to other homes and taxing housing transactions, Council Tax and Stamp Duty discourage the efficient use of our existing stock of housing

Because it does not apply to undeveloped sites that have already received planning permission from their local authority, Council Tax also incentivises developers to delay construction in the expectation of rising land prices, a phenomenon known as “land banking”.

We also have the so-called “Bedroom Tax”, a clumsy attempt to discourage those claiming housing benefits from keeping spare rooms. This is a policy that has disproportionately impacted the poor and vulnerable without solving the problem it sets out to solve<sup>19</sup>, and which even its original supporters concede has failed.

Solving the housing crisis will require a multi-pronged approach, including more building and modernised planning rules as well as tax reform.



Data: OECD GDP Data and ONS Blue book property wealth

## AN UNSUSTAINABLE REGIONAL DIVIDE

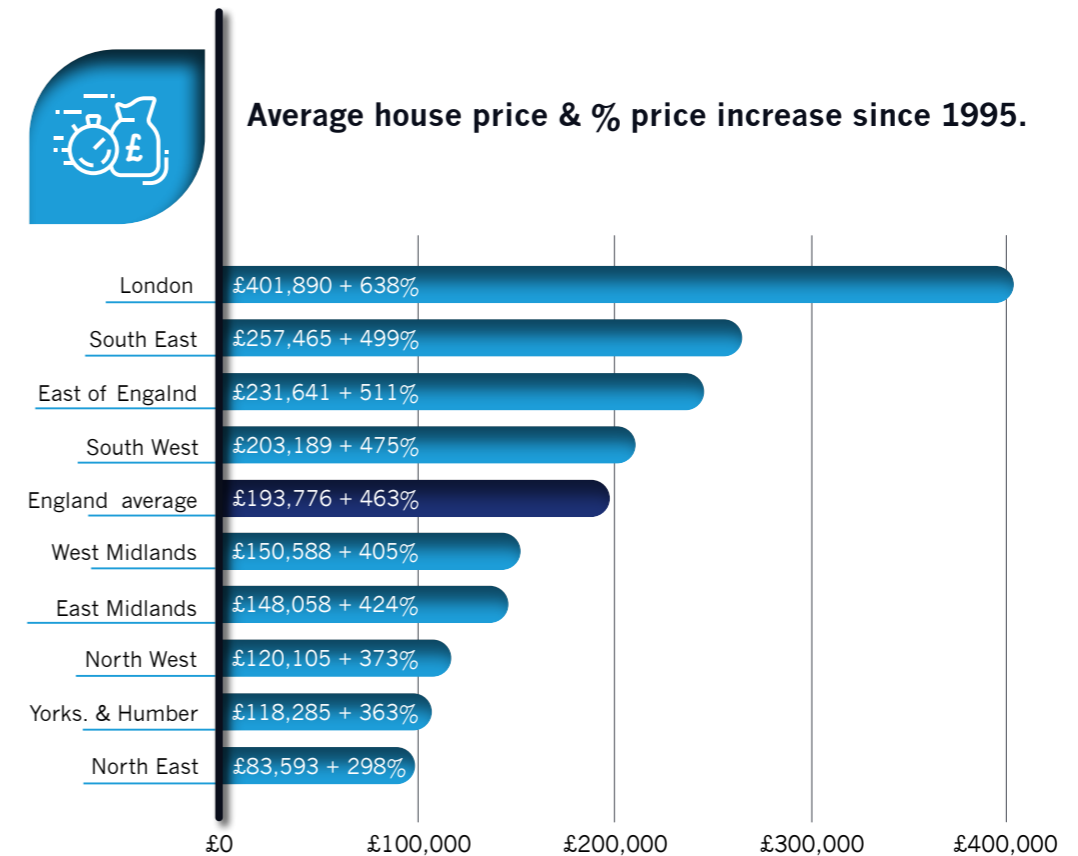
Alongside class, gender and ethnicity, the regional divide is a major contributor to inequality in modern Britain. According to one recent academic study, the UK has greater regional inequality than 28 other developed economies, including the United States, France, Germany, Spain, Sweden and South Korea.<sup>20</sup>

A huge gap in economic prosperity between London and the South East and the rest of the country, unaddressed and in some respects worsened by policies set in Westminster, has eaten away at national solidarity and the sense that “we’re all in it together”.

There are many reasons for the regional divide, but Council Tax certainly doesn’t help. As we have seen, Council Tax under-taxes larger and more expensive properties – concentrated in London and the South East – while overtaxing cheaper homes in other parts of the country.

This effect has been magnified because, since the inception of Council Tax, properties have not been revalued to keep up with property price increases – which again have been largest in London and the South East.

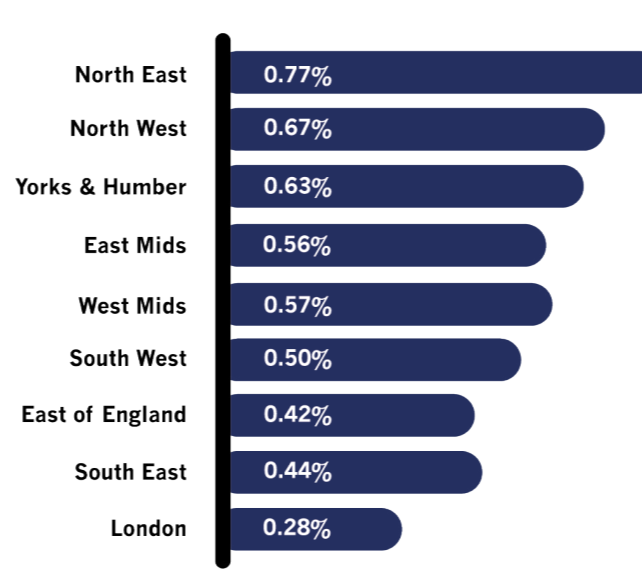
This has led to the deeply unfair situation in which those parts of the country with greater property wealth pay relatively less in Council Tax. The effective tax rate on residential property is just 0.2% in London compared to 0.7% in the North East, over three times as much.<sup>21</sup>



Total property wealth £ Trillion



Average council tax paid as % of house price



## CORE PRINCIPLES

We believe a better system is possible. In designing that system, we have based our proposals on a set of core principles which we believe any fair system of property taxation should embody.

These are that:

Property taxation should be based on actual property wealth; the burden should be shared proportionately.

Property taxation should be simple to understand, easy to administer and hard to avoid.

Property taxation should be redistributive, like income tax, with wealthier regions supporting other parts of the country in the funding of local services.

Property taxation should relate to a household's ability to pay.

Property taxation should encourage the most efficient use of our land, buildings, towns and cities.

## INTRODUCING THE PROPORTIONAL PROPERTY TAX (PPT)

To the right, we set out seven ambitious yet pragmatic reforms which follow our core principles and fix the many flaws we have identified in our existing property taxes.

While each reform, implemented individually, would represent an improvement on the status quo, we believe the proposals would be far more effective if implemented as a combined package.

As Council Tax is devolved in Scotland, Wales and Northern Ireland, our proposal to replace it only applies to England. Nonetheless, similar reforms could be independently implemented in Scotland and Wales, while in Northern Ireland a similar system already operates. Similarly, although our proposal to abolish Stamp Duty only applies to England we would encourage all the nations of the United Kingdom to implement this change.

## EIGHT KEY REFORMS

- 1 The confusing Council Tax band system should be replaced with a simple Proportional Property Tax, charged as a fixed flat percentage of property value.** Based on extensive analysis, we recommend a flat rate of 0.48%, with a higher surcharge rate of 0.96% for second, empty and non-resident owned homes.
- 2 Stamp Duty Land Tax (SDLT) on owner occupied property should be abolished.** This would unleash a wave of housing transactions and help address the ongoing housing crisis. There is clear evidence that Stamp Duty is acting as a barrier to households that want to downsize, hindering the optimal use of existing property and making homeownership more expensive for all.<sup>22</sup> Stamp Duty should however remain in place for second home and non-resident buyers.
- 3 At the point of transition to PPT, any increase in local property tax would be capped at £100 a month for primary residences.** The transitional protection would disappear at point of sale - such buyers would have benefited from the removal of the punitive Stamp Duty.
- 4 Property tax should be collected not from tenants, but directly from owners, who are in a better position to pay.** This would bring England into line with international practice, and reduce administration for councils, due to there being fewer owners than individual properties (due to multiple ownership).
- 5 A deferral mechanism should be introduced for those owners genuinely unable to pay.** Tax and a modest interest charge could be paid at a later date or, if need be, upon sale of the home, thereby avoiding the debt issues that have plagued the collection of Council Tax.
- 6 Property taxation should be made simpler and fairer by abolishing the majority of reliefs and exemptions, including those for single occupants, second homes and empty homes.** The ineffective and unfair "Bedroom Tax" should also be removed. These reliefs complicate the system and have unintended negative consequences.
- 7 A revaluation of all residential property must take place as soon as possible, with annual revaluations thereafter.**<sup>23</sup> Improvements in technology make this much more feasible than in the past. Properties should be taxed on their average value across the last three years, to ensure that increases in property value are subject to taxation. <sup>6</sup>
- 8 Property tax should apply to undeveloped plots of land that have received planning permission from the local council.** This would discourage developers who purchase land and refrain from building while they wait for the value of the plot to increase.

## CALCULATING THE BENEFITS

As part of our analysis we have used the latest data, including updated property prices and the tax each household currently pays, to model the impact our proposed reforms would have.

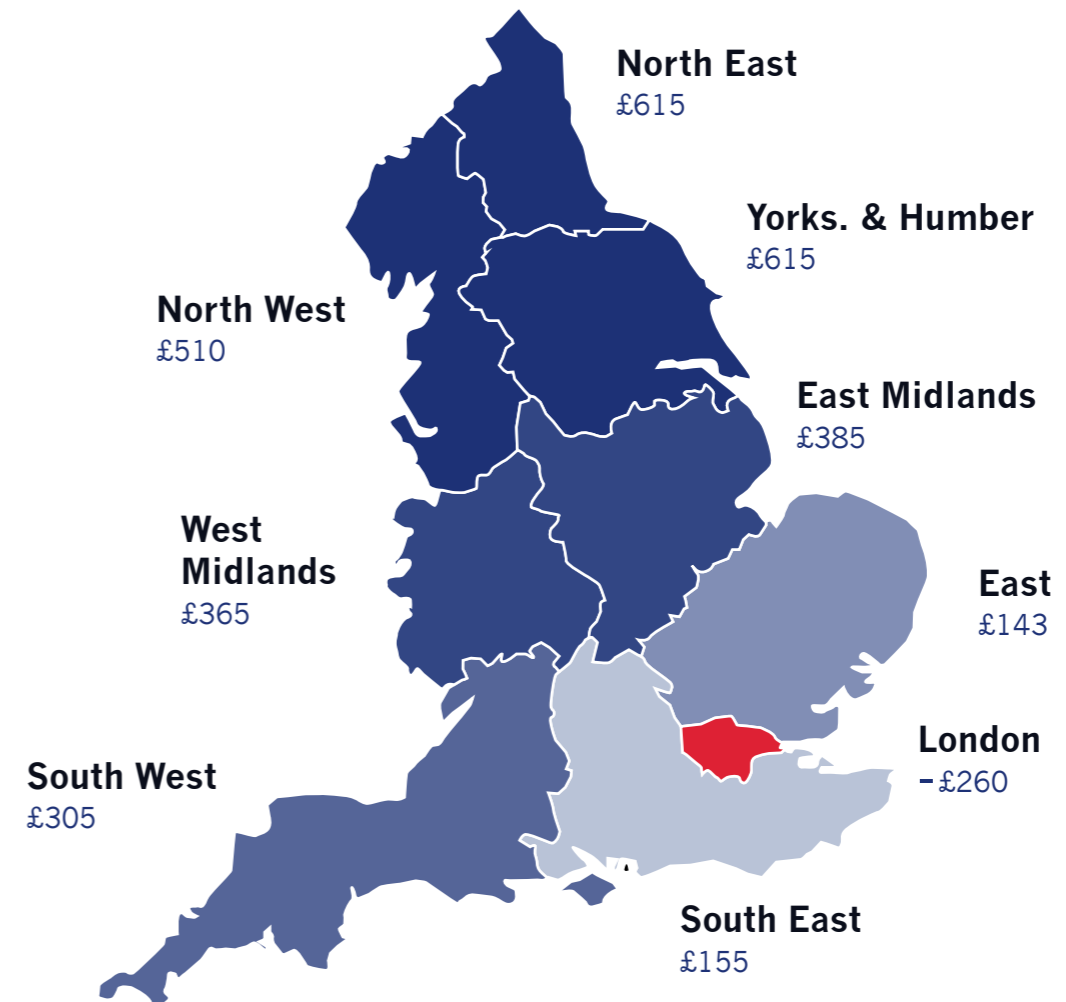
Our modelling, for England only, shows that if politicians implemented our proposals, then:

- 18 million households would pay less tax, with 75% of households better off.<sup>24</sup>
- 4.6 million single occupants would pay less than they do with their current Council Tax discount.
- £6.5 billion per year would be saved by Council Tax payers outside central London, representing a huge boost to countless communities and their local economies.
- 8.7 million households would be removed from property tax altogether, as the obligation to pay is transferred to the landlord. This would save tenants time and local councils £400 million in annual administrative costs.
- Every year over 750,000 English house buyers would no longer have to pay Stamp Duty or fill out forms to declare exemption, making house buying simpler and cheaper.
- £3.27 billion per year increase in GDP from increased housing market activity
- 1.4 million second homes, empty homes and undeveloped properties would finally pay their fair share of tax, with revenues used to lower bills for all taxpayers. Their owners would be incentivised to rent, sell or develop these properties to cover the tax bill, putting more homes on the market.
- A higher rate for non-UK taxpayers would raise £2 billion and would reduce bills for UK taxpayers.
- 600,000 homes over 5 years would be released throughout England, including 250,000 one and two bedroom homes freed up for young people who most need them.

Our system is fully costed (see appendix) and revenue neutral, raising just as much from UK taxpayers as Council Tax and Stamp Duty currently do. While many have convincingly argued for increased council budgets to pay for essential public service needs, we believe calling for an increase in taxes is beyond the scope of this paper.



### Average Savings per Household for Single Home UK Taxpayer



In regions where overall savings are less, many lower income households will still be better off.

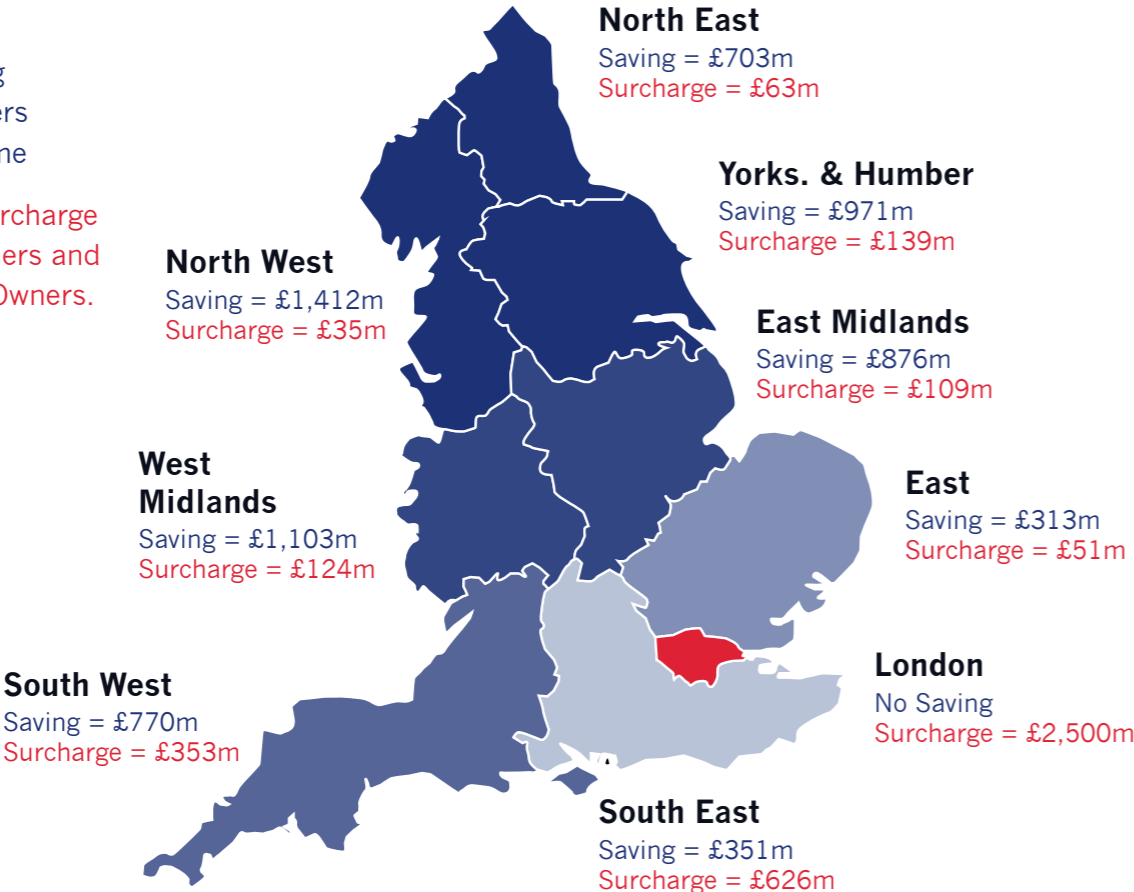


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Total Savings by Region for Single Home UK Taxpayers

Saving = Saving for UK Tax Payers with Single Home

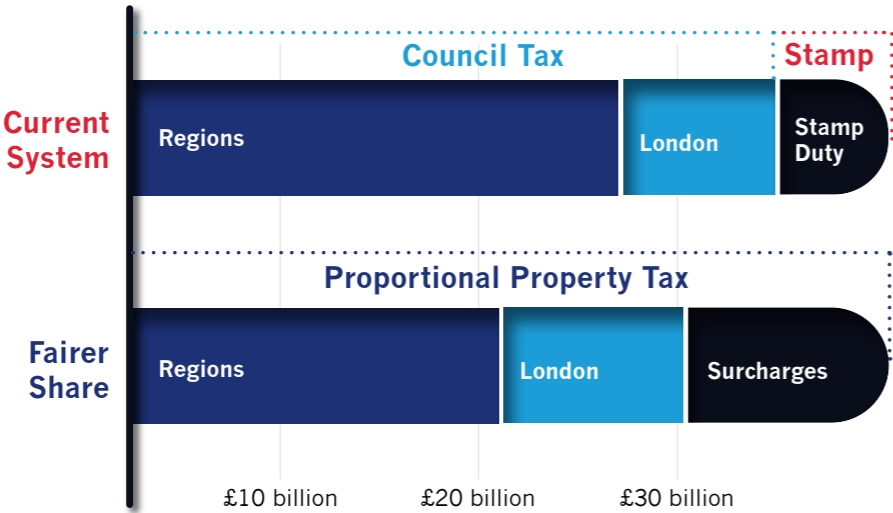
Surcharge = Surcharge for Foreign Owners and Second Home Owners.



In regions where overall savings are less, many lower income households will still be better off.



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POLICY COSTINGS

All figures in £ billion

Existing Taxes Scrapped

	Revenue raised	Revenue required	Source
Council Tax net receipts to local government 2019/20		£31.9	MHCLG Council Taxbase data
Stamp Duty Land Tax receipts from UK taxpayers with single home		£4.2	HMRC Stamp duty statistics
Under-occupancy penalty (Bedroom tax) - est. receipts to central Gov.		£0.3	Guardian Media Group
Empty homes premium - net receipts to local Gov.		£0.1	MHCLG Council tax exemptions data
Annual Tax on Enveloped Dwelling receipts		£0.1	HMRC ATED Statistics
<b>Total value of taxes scrapped</b>		<b>£36.7</b>	

Receipts and Savings from PPT Policy

Tax raised by PPT on UK tax payers primary residence	£30.1		Fairer Tax campaign 0.48% rate
Surcharge on existing planning permissions	£1.2		LGA 2017 data
Surcharge on offshore owners	£2.0		HMRC ATED Statistics
Surcharge on empty homes	£1.5		MHCLG Council tax exemptions data
Surcharge on second homes	£0.9		
Removal of discretionary exemptions	£0.4		
Removal of business rates relief loophole for second homes	£0.2		VOA Data
Reduced collection and administration costs	£0.4		Government figures
<b>Total raised by PPT policy</b>	<b>£36.7</b>		

Total figures may not sum due to rounding

## PPT & LOCAL GOVERNMENT FINANCE

Currently, Council Tax revenue goes to councils. Stamp Duty revenue goes to central government. The move to PPT would create a new source of revenue.

There are three arguments in favour of councils receiving a direct share of the PPT revenue raised in their area. It would mean that:

- voters could hold local councillors to account for local tax and spend decisions;
- councils do not give-up revenue-raising power to national politicians; and,
- councils have incentives to pursue local growth so as to increase local tax revenues.

Significantly, with revenue based upon annually updated house prices, councils would retain a share of the uplift in house prices that their policies create.

The key argument in favour of central government receiving a direct share of PPT revenue from every council area is that it would offset the Exchequer's loss of Stamp Duty receipts. This centrally- collected revenue could potentially be redistributed to local areas that have higher local spending needs and / or greater need for local economic investment.

These arguments can all be recognised within the design of PPT, along the following lines:

- PPT revenues are split into a council allocation and a central government allocation. A council and central government would each “own” a share of the PPT rate. The council allocation would ideally be large enough to encourage councils to pursue local growth initiatives.
- Councils are given power to flex the rate of PPT that gives them their PPT allocation. Councillors could make decisions to increase or decrease the rate on their PPT allocation, much like councillors can make decisions to vary Council Tax now.

Stability in PPT revenues would be desirable at both a local and national level. Should there be times when revenues from PPT drop significantly, the Government could step in with grants to fill the gap.



## THE IMPACT ON COUNCIL FINANCES

Upon introduction PPT would raise the same amount of revenue as Council Tax does now.

But because PPT is linked to local property prices, the amount of PPT revenue raised in some council areas would be significantly different – much larger or much smaller – from the revenue they currently raise from Council Tax. This is because Council Tax is based on valuations from 1991 and does not adequately reflect the substantial change in regional house price growth or generational imbalance that house price growth has created.

For those councils that would raise less from PPT than they currently do from Council Tax, the difference would have to be made up with central government grants or from funds redistributed from councils that raise relatively large amounts of PPT revenue (or both).

This type of arrangement is not new. It has been a feature of local government finance in England for decades. It could be incorporated seamlessly into PPT with the following principles:

- Government should fully recognise how council revenue raising capacity is changed by PPT in its arrangements for funding local government. In other words, the ways in which the Government decides how to direct funding across all of local government should consider the individual capacity of councils to fund themselves.
- Councils could be given new powers to generate more revenue independently. Given that some revenue raising capacity could be lost by councils, there are opportunities for new revenue raising powers to be introduced. One example would be to give councils the power to implement a levy on overnight tourist stays. Another example would be to reform planning permission to allow councils to build more houses.

It would be understandable if some councils were sceptical about transitioning to PPT if they have less capacity to raise revenue. But it is important to note that those council areas that see the biggest reduction in revenue raising capacity are also the areas where the greatest proportion of residents will see a reduction in their property tax bills or experience no change in their tax liability as a result of PPT. The policy might also provide incentives for companies and individuals to relocate to areas with lower PPT, which in turn would benefit the community and, over time, increase PPT revenues for those local authorities.

## THE IMPACT ON COUNCIL RESIDENTS

Unlike Council Tax, the obligation to pay PPT would be on the property owner, not the property tenant.

Overall, there would be far more winners than there are losers from PPT – 76% of England's households will see a reduction in their property tax bills.

But due consideration needs to be given to those residents that may not benefit from PPT.

Some homeowners – predominately in London and the South East – would pay more in PPT than they currently do in Council Tax. This increase is ameliorated by the abolition of Stamp Duty Land Tax which is particularly punitive in this region due to the higher property prices.

Other residents who may not benefit are those currently receiving some form of assistance – by being exempt or paying a reduced rate – in paying Council Tax. How these residents are affected by PPT will depend upon how much help they have been receiving, and if they are homeowners or renters.

Fairer Share proposes a revenue neutral system retaining the same total quantum of funding provided by the current Council Tax Support scheme. In many areas the savings under PPT compared to Council Tax would be equal to (or larger) than the value of benefits received through the Council Tax Support scheme.

Mitigating action could be taken to support residents who pay more under PPT.

### Fairer Share has already outlined some plans:

- At the point of transition to PPT, any increase in local property tax would be capped at £100 a month for primary residences. The transitional protection would disappear at point of sale but such buyers would have benefited from the removal of the punitive Stamp Duty.
- For those unable to meet the £100 a month increase under transitional protection, or in the longer-term, the full costs of PPT, there is a deferral mechanism until point of sale.

### These mitigating actions are purely financial, but there are other options to consider, including:

- Giving councils the power to design their own systems for supporting low-income residents through PPT, i.e., not having centrally designed restrictions.
- Central government could offer councils financial resources for those negatively affected by PPT by increasing funding for Discretionary Housing Payments.
- The Government could offer generous PPT discounts for socially rented homes that meet the highest level of energy efficiency, moving from a system of grants and loans to one of market incentives



## OUR SUPPORTERS

Since launching the campaign, we have been very grateful for the widespread support that we have received across Parliament. This has been shown by the launch of the Property Research Group of over 30 MPs and chaired by Kevin Hollinrake (Thirsk & Malton) to campaign to reform council tax.

Moreover, we have received specific praise and support from a number of Members of Parliament from both the Conservative and Labour parties. These MPs have written a number of opinion pieces in support of our work.

Please see <https://fairershare.org.uk/supporters/>

Moreover, we have been very pleased to see this parliamentary endorsement matched by support amongst the wider public. Our petition in support of the campaign has reached over 120,000 signatures and is continuing to grow.

In addition to the wide public and parliamentary support, we have been flattered to see an array of experts from across the political divide endorse our campaign. You can see below just how many organisations have joined us in urging the Government to finally end our unfair system of local taxation.

## WIDER POLITICAL SUPPORT

We have also received wide support from various other politicians and parliamentary groups.

This includes Lib Dem Peers Lord Ian Wigglesworth, Lord John Shipley and their former leader Sir Vince Cable. They've been joined by IFS President, and crossbench peer, Lord Gus O'Donnell.

Moreover, several all party parliamentary groups including the APPG on Land Value Capture, the APPG on Anti-Corruption and Responsible Tax have endorsed Fairer Share. The Housing, Communities and Local Government Select Committee have also committed to supporting PPT.

Elsewhere John Muellbauer, Professor of Economics at University of Oxford, has argued that it is an almost universally accepted principle that property taxes should resemble market values - he has also joined us in our open letter to the Sunday Times urging the Government to bring about the Proportional Property Tax.



## RECENT CONTRIBUTIONS FROM LEADING THINK TANKS



This paper highlights that England's system of property taxes is in urgent need of reform. Council Tax, devised in a hurry to resolve political difficulties after the demise of the Poll Tax, hits those in low-value homes hardest, and bears at best only a tenuous relationship to today's house prices. Stamp Duty acts as a tax on moving house, slowing the housing market and making it harder for people to find the right home for them.

This report presents the various options to reform England's property taxes, assessing them against both economic and political criteria. It concludes by setting out a new approach to taxing English property to mitigate the regressivity and distortions of the current system, and help achieve government aims of levelling up and delivering net zero.

The report considers multiple options to reform. They conclude the best option is an annual proportional property tax - imposed separately by national and local government, with a development levy and green offsets.



Young people are less likely to secure the living space they need compared to older people and the inter-generational divide is growing.

More than one in five 16-24 years old live in overcrowded conditions, with this figure rising to 46% in London. More than one in five 25-34 years old live in concealed households, with parents or other relatives. Yet young people spend a greater proportion of their income on council tax than most other groups of working-age adults.

The result of poor housing can often be worse physical and mental health outcomes for young people, delayed life milestones and difficulties in accessing work.

At the same time, because of the manifest inefficiencies in the English housing system, there are millions of homes not being used to their full potential. In many cases this is the result of under-occupied homes with two or more spare bedrooms. But the problem is compounded by hundreds of thousands of second homes and long-term empty homes.

Problems in the housing market are made worse by the inefficient way property is taxed in England. Council tax is outdated and unjust, hitting young people and less affluent areas with lower house prices the hardest.

With Fairer Share's proportional property tax WPI believes up to 600,000 homes would be released throughout England. This could mean up to a quarter of a million one and two bedroom homes freed up for young people who most need them, along with many more family homes. In London, up to 47,000 one and two bed starter homes could be released - more than any other part of the country. Even under WPI's conservative assumptions, more than 170,000 homes would be released within five years of PPT being introduced.



The housing market has been a significant driver of wealth inequality in the UK over the past 40 to 50 years. Our tax system has failed to keep up, and reform is needed to ensure a fair social contract. Moving from our current system of property taxation to a proportional property tax would help to achieve this. It would help to address wealth and income inequality, and make our economy stronger.

Across the political spectrum there is a renewed interest in addressing regional inequality within the UK and England – or “levelling up” - and we have shown how a proportional property tax could help address existing inequalities in the taxation of housing. The existing system of council tax and stamp duty is regressive. Replacing it with a proportional property tax would redistribute the burden of tax more fairly, with areas with higher house prices no longer paying lower rates of tax.

Important questions of policy design – the level of taxation; the treatment of different groups; levels of fiscal devolution and geographic redistribution; and transitional and ongoing protections – must be considered in order to ensure that the policy is fair, effective, and capable of winning support.

Fairer Share's proposals would reduce property tax bills for most households; increase property transactions; and redistribute, on average, to low- and middle-income households. We could see GDP benefits of up to £3.27 billion per year from increased housing market activity, and £0.04 billion per year from redistributing income towards lower-income households.

Fairer Share's proposals are the most prominent and detailed set of proposals for a proportional property tax currently in the public debate. They have carried out work to consider the political aspects of policy design, as well as the technical aspects. Their proposals would not, alone, bring about a fair housing settlement, but they are a step in the direction needed, and an improvement over our current system

## ADDRESSING OUR CRITICS

Since launching Fairer Share in the spring of 2020, we have been inspired by the 120,000 households who have signed our petition calling for reform. These have come from all walks of life – young families struggling to get by in the face of rising Council Tax bills, hard-working families in tenanted accommodation, grandparents wondering how their grandchildren will find a way onto the property ladder, the housing industry looking for alternatives to Stamp Duty.

It seems the main reason why this has not been pursued by the Government is simply political necessity. They acknowledge that Council Tax and Stamp Duty are doing immense damage to the people of this country, but do not wish to resolve due to political expediency.

You can see our rebuttals in the links below -

### Anthony Browne MP

<https://fairershare.org.uk/a-review-of-the-proportional-property-tax/>

### Jesse Norman MP

<https://fairershare.org.uk/our-response-to-jesse-norman-mp-hm-treasury/>

### Neil O'Brien MP

<https://fairershare.org.uk/our-response-to-mp-neil-obriens-review-of-ppt/>

### Sir Paul Beresford MP

<https://fairershare.org.uk/our-response-to-sir-paul-beresfords-review-of-fairer-share/>

### Conservative Party HQ

<https://fairershare.org.uk/reviewing-mps-responses/>

### HM Treasury

<https://fairershare.org.uk/answering-hm-treasurys-questions-on-the-proportional-property-tax/>

## SUPPORT THE CAMPAIGN

Our campaign combines original analysis, fresh polling, multimedia content, events and social media outreach to build that coalition and raise the political profile of property tax reform.

We are not the first to point out the flaws with Council Tax and Stamp Duty, nor the first to put forward alternatives.

Our work draws on the impressive research carried out by some of Britain's most esteemed think tanks, including the Institute for Fiscal Studies (IFS), the Resolution Foundation, the Institute for Public Policy Research (IPPR) and Bright Blue. Politicians from both sides of the divide have called for similar reforms to those outlined in this paper.

Moreover, a number of countries - including Ireland, Denmark, United States and Australia - have already successfully implemented proportional or progressive property taxes. Yet, despite the criticism, Britain's property tax system remains largely unchanged, with politicians unwilling to undertake reforms they fear voters will either not appreciate or worse, angrily oppose.

Our polling shows that voters want reform. As we've demonstrated, Council Tax is unfair for most homeowners. Our Proportional Property Tax would create many more winners than losers.

Moreover, having won an unprecedented number of seats in Labour's historic northern heartlands, the Conservative Party – whose latest manifesto called for limiting “arbitrary tax advantages for the wealthiest in society” – is less opposed to redistributive policies than it has been in the past. Their MPs talk about levelling up. Here is their opportunity.

But success will require a new approach. We need a large-scale popular movement to inform the wider public and give them the tools to champion reform. Only then will politicians in Westminster begin to pay attention.

This paper marks the beginning of that campaign. Under the “Fairer Share” banner, we aim to create a citizen-led movement that will bring about the reform so badly needed.

The first step in supporting our movement is to sign the petition on our website. We hope that after reading this paper you will reach the same conclusion as us – Britain deserves much better than Council Tax and Stamp Duty.

Tax will never be welcomed, but it should at least be fair. With your support, we can bring about change and improve the lives of millions of people up and down the country.

## METHODOLOGY & VALUATION PROCESS

Our policy will be based on annually updated house prices. We propose that annual revaluation be based on a rolling average of property prices over the previous three years, in order to moderate the impact of sudden changes in house prices due to economic crises or instability. Our analysis uses the records of over 20 million property transactions which have been documented by the Land Registry (a government department) since Council Tax was introduced. Older records are updated using government data on house price inflation.

This is the same method used by companies like Zoopla and Rightmove to estimate the prices of homes they show. Where a property hasn't been sold in the last 30 years, we use the average price for a property of that type in that location.

We have been deliberately conservative with our property value estimates, preferring to undervalue and use a higher rate for the Proportional Property Tax. This is more prudent than overvaluing and proposing a rate that would be too low to raise the required revenue. Overvaluing properties could also lead to large numbers of challenges that would require time and resources to defend.

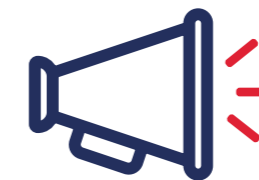
We propose that as part of the new system, the tax rate and amount of tax paid is published for every property. This would enable tenants to confirm what their landlord is paying, house buyers to understand what their costs would be, and property listing sites to accurately display the full cost of renting or owning a property. The current process for appealing a valuation, whereby a homeowner can challenge their valuation if they think it is too high, would remain in place.

The same approach to valuation can be applied to homes that have had planning permission granted but that have not yet been built. The nearest equivalent home (in terms of location, type and size) would be used to determine the value the completed home would sell for. PPT would be applied to this valuation and collected from the developer until the sale of the house.

## REVALUATION

The United Kingdom currently sits behind the developed world in our valuation of homes. In the Netherlands, British Columbia and New York every single year revaluation is conducted using modern computing methods, with the help of expert valuers, to provide consistently accurate estimates of household value. Indeed, even if we don't manage annual valuations there are several good models like New Zealand who revalue property values every three years. Regardless there are reasons to still rely on valuations that are thirty years old.

The data necessary to do these calculations are already held and collected by the Valuation Office Agency. They simply need to make the initial investment into the computing equipment necessary to process the data. This was done in 2007, showing we can do it, but unfortunately these plans were never followed through hence why we're still using the figures from 1991. This is why the International Property Tax Institute concluded that there was no reason why the United Kingdom would not be able to perform annual revaluations. They estimate that doing so would take no more than three years.



## HOW WE MEASURE WINNERS AND LOSERS

To measure the impact of our policy on households, we have compared what households currently pay under Council Tax and Stamp Duty with what they would pay under the Proportional Property Tax, based on our estimates of property value.

Calculating the number of households that benefit from our policy requires us to know both the change in what they pay and the total number of households that will be affected. The total number of households is defined as all those that pay Council Tax, whether at full or discount rate. Our policy retains Council Tax support for pensioners and working age households but removes other discretionary exemptions and reductions. For tenants, we assume that any change in tax is passed on by the landlord, whether that is a rise or fall.

An expected outcome of our policy is that many of the owners of currently unoccupied or under-occupied empty homes and second homes seeing a Tax rise would rent to cover the cost. This would mean more properties on the market and lower rents. To keep our model simple and results robust however, we do not allow for this dynamic effect of lowered rents and will therefore be underestimating the number of households benefiting financially from our policy.

For the Stamp Duty estimate we calculate the tax due under the current system and divide this across 20 years, the average length between house sales. As with other calculations we have been conservative and assumed that the price sold would be at a discount (in absolute terms) to the current house price<sup>25</sup>, therefore actual savings would be higher. To estimate the number of offshore owners and the value of property they own we use a combination of government figures.

Since 2013 the government has required anyone buying property through an offshore company to pay ATED (Annual Tax on Enveloped Dwellings) while non-UK taxpayers purchasing additional dwellings must declare this and pay higher-rate Stamp Duty. In both instances, the government publishes this data, including on the value of the property acquired.<sup>26 27</sup> To account for non-UK taxpayers not identified in these two ways, we use research published by Savills<sup>28</sup> estimating that 7% of London sales were to non-UK nationals. Our conservative estimate is that less than 1.6% of English homes are owned by non-UK taxpayers.

We use figures for second or empty homes that are published by the government<sup>29</sup>, as well as official data on the number of homes <sup>30</sup> (55,000) that were previously paying Council Tax but which are now registered as a business but pay no Business Rates due to the small business exemption.



All major parties are committed to fairness. A Proportional Property Tax is a cross-party solution to deliver it. This reform is politically expedient, socially just and economically sensible.

Let's tax homes fairly.

 Conservatives	 Labour	 Liberal Democrats	 Green Party
			
" <b>fairer</b> , greener and more resilient economy"	"a <b>fair</b> society will lead to a more prosperous economy"	" <b>fairer</b> , greener, more caring Britain"	"a <b>fairer</b> , greener Britain after Covid"

**DAILY Mirror** FIGHTING FOR YOU  
Monday, January 7, 2019 75p  
HORROR OF BABY IN CAR TAKEN BY THIEF  
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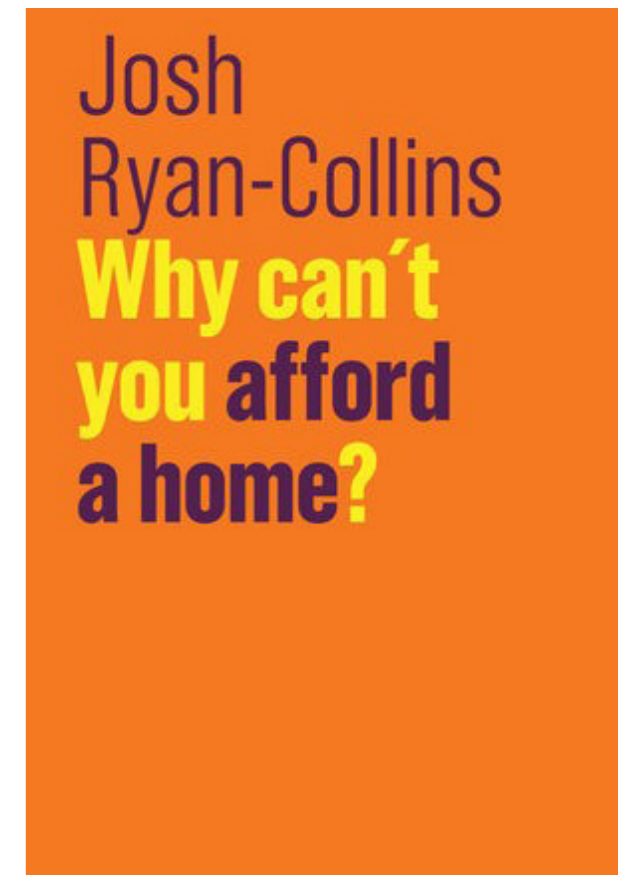
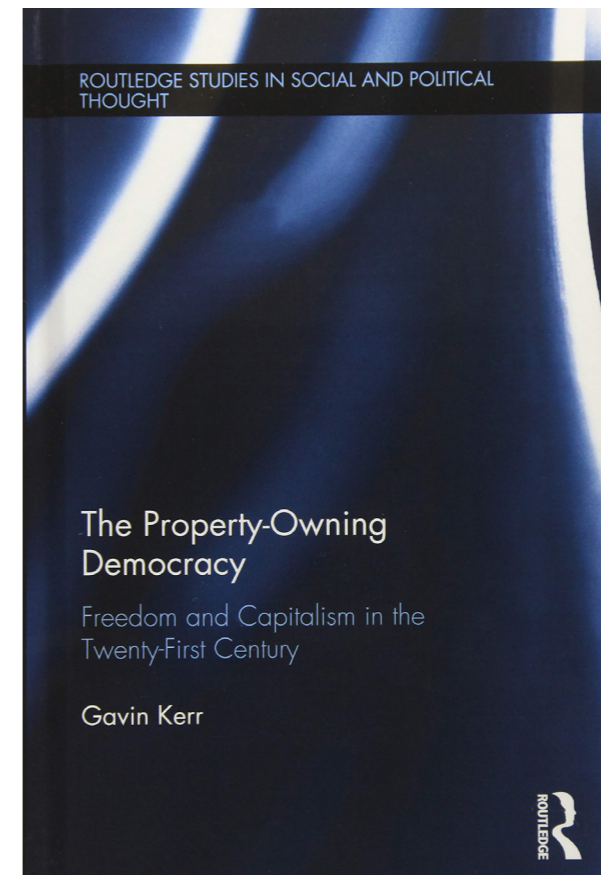
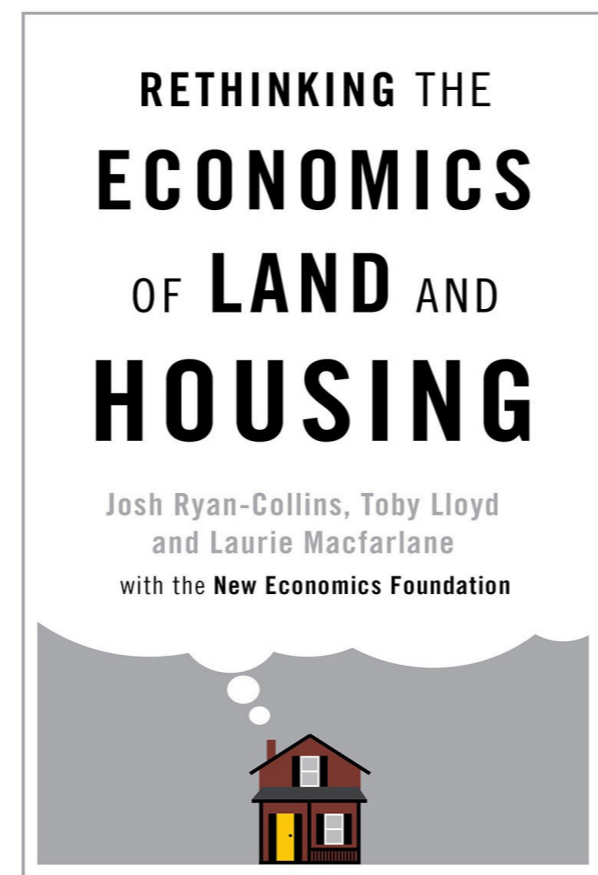
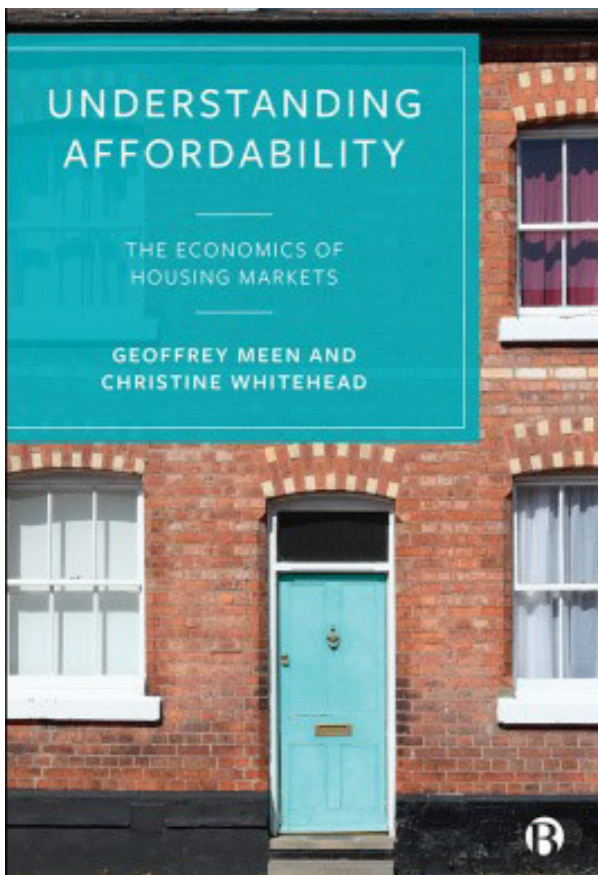
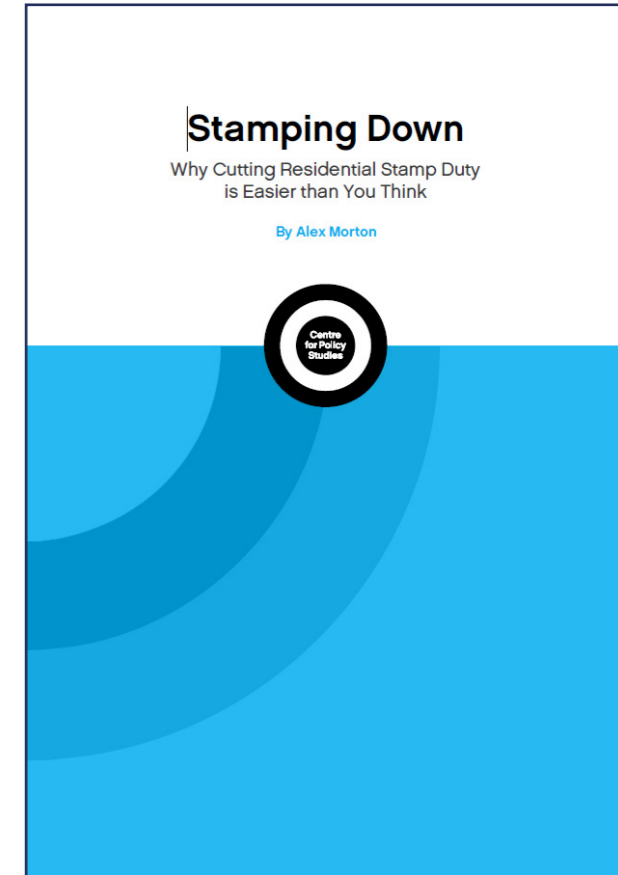
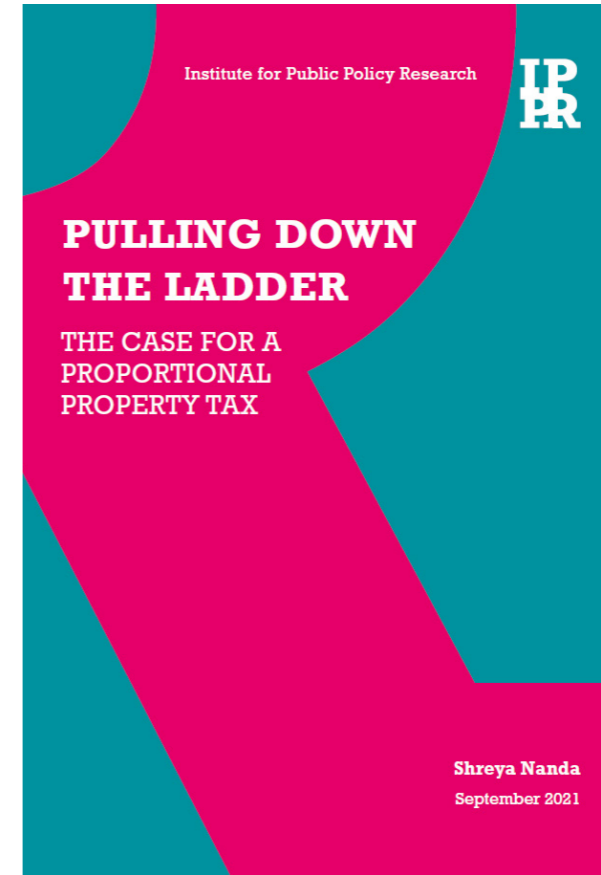
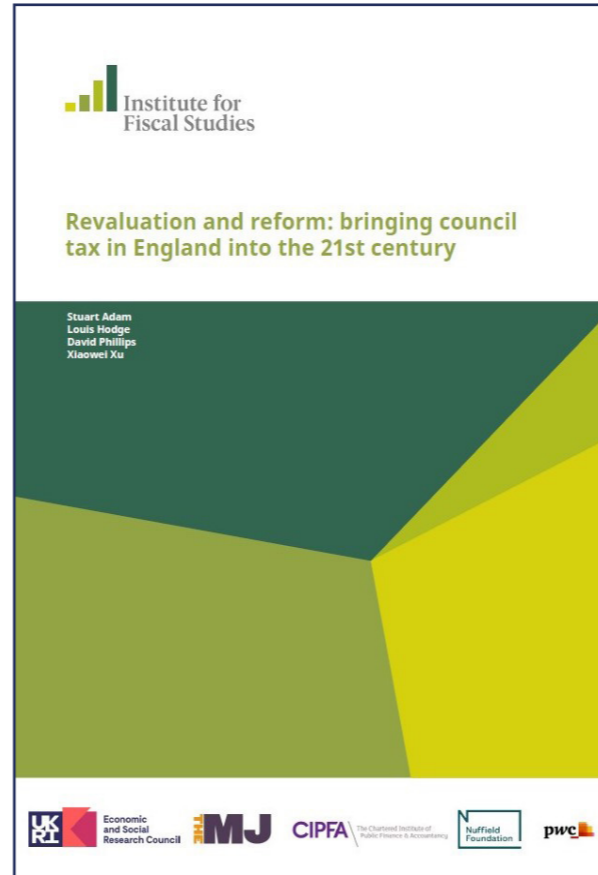
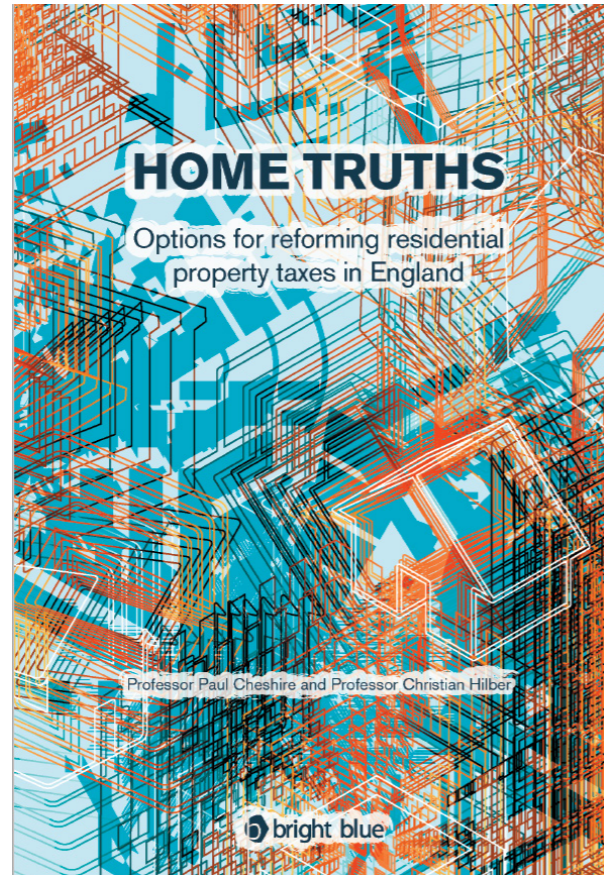
**THE TIMES** Tuesday November 20 2012 | thetimes.co.uk | No 70735  
Should you let your child fail?  
If Sunak really wants to help out he must grasp tax  
Moyle fails to keep tax avoidance deal private

**Daily Mail** TUESDAY, MAY 11, 2010  
WIN £50,000 GUARANTEED EVERY DAY  
COUNCIL TAX SHOULD BE SCRAPPED, REPLACED WITH A 5% TAX.  
RISHI SUNAK URGED TO AXE COUNCIL TAX AND PRESSURE MOUNTS FOR PROPERTY TAX.

**The Sun** Friday, September 7, 2018  
EXCLUSIVE: JOHNSON  
Council tax bill  
Property address (if different)

**The Guardian** Thursday 31 December 2020 £2.20 From £1.75 for subscribers  
The resolution I kept G2 special  
Arise Sir Lewis... Hamilton and NHS heroes honoured  
MPs call for 'long overdue' reform of council tax property values in England  
Changes to jab rollout as Oxford vaccine gets approval  
TAXING TIMES Families could face council tax rises of up to £100 EVERY year

**Daily Mail** A £150K SEMI-DETACHED HOME THAT PAYS MORE TAX THAN A £77M MANSION: THAT'S JUST ONE OF THE INJUSTICES IN THE COUNCIL TAX POSTCODE LOTTERY  
One is a £77.5million eight-bedroom luxury mansion in one of London's most exclusive postcodes. The other is a modest family home in County Durham on the market for £150,000.  
Let the owners of the three-bedroom semi-detached



## AUTHORS

### Andrew Dixon

Andrew Dixon is founding trustee of Fairer Share and The Woodhaven Trust, founder of ARC InterCapital, and is an Enterprise Fellow at The Prince's Trust. Starting his career in banking at Société Générale and Goldman Sachs, Andrew founded ARC InterCapital in 2000. Since then, he has spent more than two decades investing in micro, small and medium-sized businesses.

### Dominic Humphrey

Dominic Humphrey is founder and director of Urban Data Analysts and a Research Fellow at UCL. He has 15 years of experience working in property, initially as an architect and strategic consultant and now as a data scientist. His focus for the last 5 years has been on property tax data, using his 2018 thesis on applying machine learning, geospatial analysis and big data to create land value algorithms from UK property. Dominic is a Trustee of Fairer Share and the co-author of "Taxing Land, Not Investment", a major report advocating for the replacement of Business Rates with a land value tax.

### Max von Thun

Max von Thun is a policy expert and commentator with a wealth of experience across politics, think tanks, journalism and the private sector. Max is a consultant at political advisory firm Global Counsel, where he advises leading technology companies on public policy. Prior to this he advised UK MPs and Peers on economic policy, and held research positions at think tanks the Centre for Entrepreneurs and the Royal Society of Arts. His writing has been published in City AM, The Telegraph and CapX, among other publications. Max is a passionate advocate of fairer taxation and co-author of "Taxing Land, Not Investment", a major report advocating for the replacement of Business Rates with a land value tax.

### Tom Spencer

Tom Spencer is a Law student at City, University of London. He is a political commentator and the Chief Organiser and Founder of the London New Liberals. He has experience in various think tanks and has published research papers on a variety of subjects ranging from taxation to price gouging law. His writing has been published in ConservativeHome, CityAM and the Daily Mirror among others.

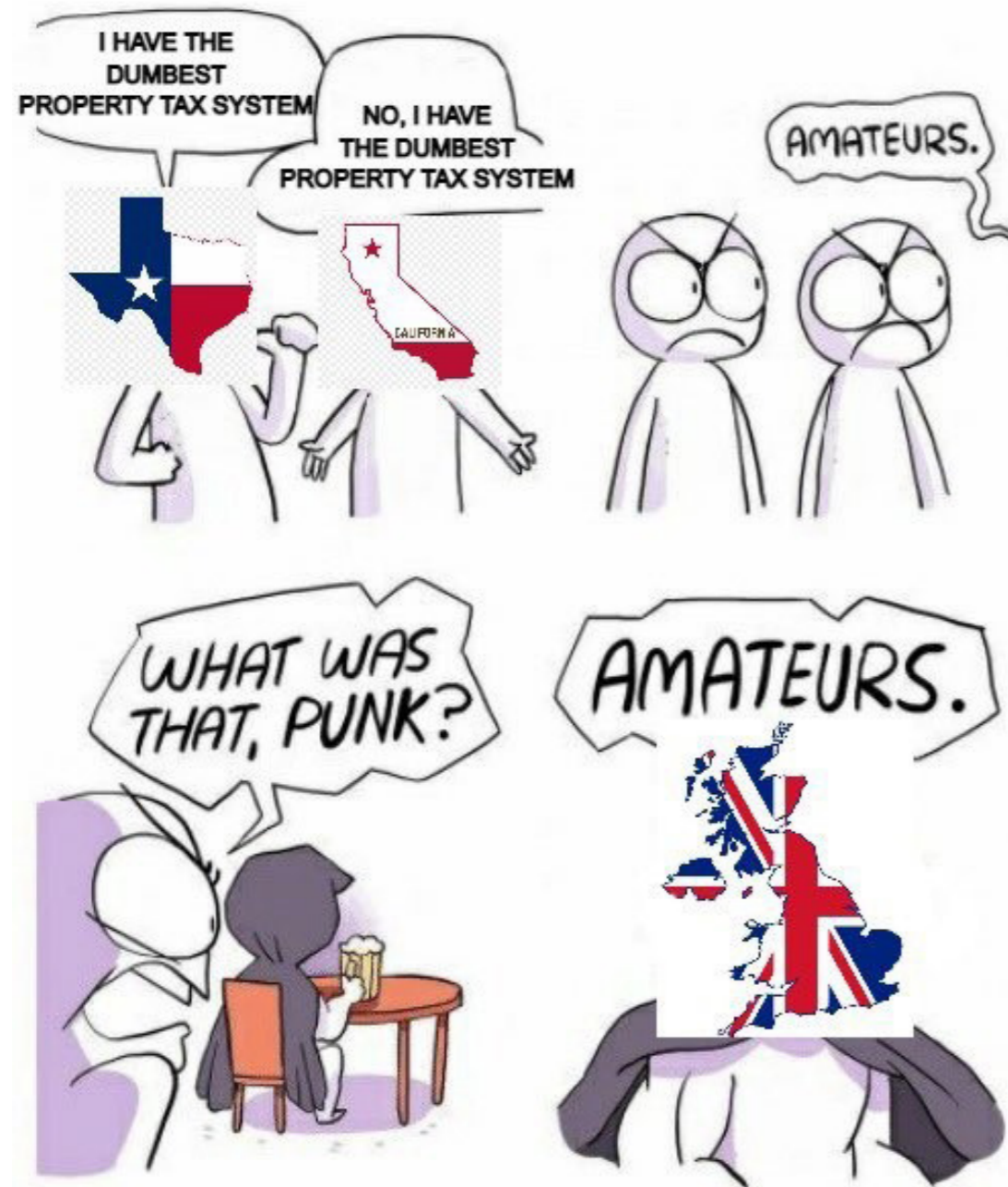
## FAQ

Should you have further questions about our policy and our campaign please visit our extensive FAQ section:

<https://fairershare.org.uk/faq>

## FOOTNOTES

- <sup>1</sup> Office for National Statistics, *Total wealth in Great Britain: April 2016 to March 2018*, December 2019
- <sup>2</sup> OECD Data on Income Inequality as of May 2020
- <sup>3</sup> PwC, *Making the UK fairer*, September 2019
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- <sup>21</sup> Resolution Foundation, *Home Affairs: Options for reforming property taxation*, March 2018
- <sup>22</sup> Kath Scanlon, Christine Whitehead and Fanny Blanc, *A taxing question: Is Stamp Duty Land Tax suffocating the English housing market*, LSE and the Family Building Society, November 2017
- <sup>23</sup> Valuations would be based on a five year average to account for sudden fluctuations.
- <sup>24</sup> We have conservatively assumed that 100% of the change in cost from Council Tax to the PPT is passed on by owners to tenants
- <sup>25</sup> In the modelling we use the rolling average of the property price over the previous three years leading to discount on the stamp duty, the actual savings from policy would be slightly higher than we show.
- <sup>26</sup> HM Revenue and customs [www.gov.uk/government/statistics/uk-ated-statistics](http://www.gov.uk/government/statistics/uk-ated-statistics)
- <sup>27</sup> HM Revenue and customs [www.gov.uk/government/statistics/uk-stamp-tax-statistics](http://www.gov.uk/government/statistics/uk-stamp-tax-statistics)
- <sup>28</sup> House of Commons Library briefing paper 07723, July 2017
- <sup>29</sup> Ministry of Homes Communities and local goverment [www.gov.uk/government/statistics/council-taxbase-2018-in-england](http://www.gov.uk/government/statistics/council-taxbase-2018-in-england)
- <sup>30</sup> George Hammon, Financial Times, 18th March 2020 [www.ft.com/content/53a1d365-0eb5-4622-bff3-1e893672260b](http://www.ft.com/content/53a1d365-0eb5-4622-bff3-1e893672260b)



*'Or, if you want something more expensive, I can show you this again tomorrow'*