Comment

Property taxation reimagined

Speed read

Stamp duty is one of the UK's most distortionary taxes, discouraging mobility and penalising those who need to move. Council tax, meanwhile, is regressive, outdated, and still based on 1991 property valuations. Principal Private Residence relief ensures that capital gains on main homes escape taxation, but recent speculation has raised the question of whether its generosity is sustainable. The current system combines inefficiency, inequity and fiscal instability in ways that few serious observers now defend. What is needed is a wholesale rebalancing: a shift away from transaction-based and regressive band-based property taxes towards a proportional property tax levied annually on up-to-date market values.

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Every few years, HM Treasury is reported to be examining the future of property taxation. Often these discussions fade, crowded out by more immediate fiscal pressures. Yet recent press coverage suggests something more substantial: officials are exploring whether stamp duty land tax (SDLT) and council tax might be replaced with a value-based property tax. For those of us who have long argued that the current system is inefficient and unfair, this is a significant moment.

The roots of an unbalanced system

Property taxation in the UK has long been characterised by piecemeal reform, periodic political interventions and a patchwork of economically distortionary measures. The central pillars – council tax, introduced by the Local Government Finance Act 1992, and SDLT, enacted by FA 2003 – were not designed as complementary parts of a coherent system. Rather, each emerged as a pragmatic response to immediate fiscal and political pressures. Decades on, their shortcomings are evident.

HMRC statistics show that SDLT receipts have grown from less than £1bn in the early 1980s to almost £18bn in 2022/23. Council tax receipts have risen steadily and now raise over £37bn annually. As *The Economist* observed, Britain now collects a larger share of GDP from property taxes than any other OECD country.

SDLT: the killer of mobility

Few taxes have drawn as much consistent criticism as SDLT, which by design is a transactions tax. Under FA 2003 Sch 4, the charge is imposed by reference to the consideration given for the acquisition of a chargeable interest. For residential property, it is now levied at rates of up to 12%, with an additional 5% surcharge on second and subsequent homes (increased from 3% as of 1 April 2025).

The economic literature is clear: this 'front-loaded' liability discourages mobility: downsizers delay moving, families stay in ill-suited homes, and labour markets are less efficient as people are deterred from relocating for work. Academic and government analysis indicates that residential SDLT increases of one percentage point reduce transaction volumes by around 5%–7%, while a two percentage point rise can cut short-distance moves by approximately 40% (Hilber & Lyytikäinen, 2012).

The Mirrlees Review (2011) described SDLT as 'among the most inefficient taxes available to government.' And it creates 'bunching' and cliff-edge distortions around the numerous 2%, 5%, 10% and 12% thresholds, as buyers and sellers distort transaction values to reduce liability.

In 2006/07, at the height of the boom, SDLT raised £14bn. Just three years later, in the aftermath of the financial crisis, receipts had halved. Even in 2020/21, during the pandemic, revenues slumped before surging again during the SDLT holiday. A funding stream this volatile is a disastrous foundation for long-term fiscal planning.

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HMRC's own *SDLT Manual* (at SDLTM00400) acknowledges that the tax has long been subject to avoidance pressure and to complexity through layering of reliefs (for example, first-time buyers and multiple dwellings relief). Above all, SDLT is unpopular. It is seen as a penalty for moving, yet it does nothing to capture the unearned gains of property appreciation once the transaction is complete.

Council tax: the new poll tax

If SDLT is distortionary, council tax is simply unfair. Liability is set by LGFA 1992 ss 6–7 and introduced in 1993 following the poll tax debacle. It is based on 1991 valuations (2003 in Wales) and bears little resemblance to today's housing market. A £10m home in London may sit in Band H and pay less than a modest Band B property worth £150,000 in County Durham. Households in the bottom decile by property value pay, on average, over 0.7% of property value annually, while those in the top decile pay less than 0.1%. Council tax is a de facto wealth tax on low and middle-income households. The Valuation Office Agency's Council Tax Manual openly concedes that current bandings fail to reflect market values. This is an indefensible basis for a major revenue stream.

Banding creates cliff edges. Two houses a pound apart in 1991 value can face markedly different bills. The absence of revaluation entrenches these inequities. Successive governments have shied away from revaluation, fearing political fallout. The result is a structural transfer from poorer regions to richer ones, hard to square with the government's commitment to delivering for communities.

Council tax also fails as a local tax. Revenues are capped by outdated bands, while councils are increasingly reliant on central grants or on squeezing local taxpayers harder. The system has lost credibility: taxpayers do not believe it is fair, and councils do not believe it is sustainable.

PPR: the elephant in the room

Principal Private Residence Relief (PPR) has long been sacrosanct. It exempts from CGT the gains made on selling a main residence, regardless of size. In principle, this reflects the idea that a primary home is not a speculative asset but a personal necessity. While this exemption has been politically untouchable, it creates a striking asymmetry: gains on financial assets are taxed, but gains on property wealth – often far larger – are not. Current PPR relief creates incentives for wealthy individuals to concentrate their wealth in residential property, knowing gains will escape taxation.

> Incremental reform of SDLT and council tax, and narrowing PPR relief, risks adding complexity without addressing the fundamental misalignment of the tax base

The exemption means that vast property wealth accumulated over decades goes untaxed. Homeowners in London and the South East have often seen gains exceeding £500,000 – far beyond most people's lifetime pension savings – escape CGT entirely. While the Institute for Fiscal Studies (IFS) describes PPR as a costly relief, it does not quantify the cost. Industry estimates, such as from Saffery, put the value of relief at around £31.5bn in 2023/24.

Recent speculation that the Treasury might consider restricting PPR relief prompted a fierce backlash. Politically, the idea is close to toxic. Yet serious tax reform cannot ignore the imbalance between taxed financial gains and untaxed property gains.

Taken individually, each of these three tax features could be justified. Taken together, they produce a system that discourages mobility, entrenches regional inequality, and fails to reflect the true distribution of wealth. The policy dilemma is whether to tinker or deliver more radical reform.

Proposals have included increasing the SDLT thresholds, adding extra council tax bands or capping PPR relief above a threshold to reduce long-standing distortions. Incremental reform of SDLT and council tax, and narrowing PPR relief, adds complexity without addressing the fundamental misalignment of the tax base.

The historical case for reform

Support for shifting from transaction-based taxes such as SDLT to an annual, proportionate property tax has deep historical roots. Influential figures in economic policy from David Ricardo through to Adam Smith and Winston Churchill have long argued that taxing land and property wealth is both efficient and equitable.

In his *Principles of Political Economy and Taxation* (1817), Ricardo demonstrated that landowners capture economic rents unearned by productive activity, making property taxation uniquely non-distortionary.

In *The Wealth of Nations* (1776), Smith articulated his four canons of taxation – equity, certainty, convenience and efficiency – all of which are better satisfied by a recurrent property tax than by SDLT or council tax.

Churchill, in his speeches on land value taxation in the early 20th century, framed the case in more political terms, criticising a system that allowed windfall gains to accrue to landowners while the public bore the costs of infrastructure investment.

The resonance of these arguments today underscores the intellectual continuity behind Fairer Share's campaign: far from being a novel or radical departure, a proportional property tax can be seen as a modern application of principles long established in economic thought and public finance.

Proposals for a more equitable property tax have garnered support from prominent economists, including Martin Wolf, David Smith, Larry Elliott and Tim Leunig; leading think tanks such as IFS, IPPR, Bright Blue, Onward, NEF and Radix; as well as a wide range of parliamentarians, academics, charities and policy campaigners.

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Land Value Taxation (LVT) – an option considered

Economists have long favoured Land Value Taxation (LVT), which targets the unimproved value of land rather than buildings, capturing community-created rents and minimising distortions. Fairer Share considered LVT closely, but practical barriers proved decisive: separating land from property value is technically complex, costly, and would delay reform. A proportional property tax (PPT), by contrast, can be implemented swiftly using existing valuation methods, while delivering many of LVT's fairness and efficiency benefits. For these reasons, Fairer Share judged PPT the most workable path, though LVT remains attractive in principle.

Designing a proportional property tax

A volatile transaction tax sitting alongside a regressive annual tax – has been criticised by academics, practitioners and increasingly by policymakers. Both Onward and Fairer Share argue that piecemeal tweaks will be insufficient. What is needed is a wholesale rebalancing: a shift from transaction-based and regressive band-based property taxes towards a PPT levied annually on up-to-date market values.

In his *A Fairer Property Tax* report for think tank Onward, Leunig proposes replacing both SDLT and council tax with a two-part solution: one levied locally at approximately 0.44% on the value of properties up to £500,000, and another charged nationally – around 0.54% on values between £500,000 and £1m, rising to 0.81% on values above that – to fund local services and create a fairer, more efficient system.

Fairer Share campaigns for the abolition of SDLT and council tax in favour of a simple PPT, replacing both SDLT and council tax with a single annual levy of 0.48% of property value. Under this system, a household in a £250,000 property would pay £1,200 per year, whereas owners of a £2m home would contribute £9,600 – ensuring liability rises in line with property value. Fairer Share's analysis indicates that a PPT would generate revenue equivalent to the combined yield of council tax and SDLT, while redistributing the burden: roughly three-quarters of households would pay less, with higher-value properties contributing proportionately more.

The system would apply to all residential properties, with the tax liability following the property owner rather than the tenant. This approach ensures administrative simplicity while maintaining the connection between local property values and local government funding that makes property taxation particularly appropriate for financing local services.

The benefits of reform

Economic benefits

The economic benefits are clear. Replacing SDLT would remove a major friction in the housing market, improving labour mobility and efficiency. Replacing council tax would create a system proportionate to wealth held in property, addressing intergenerational and regional inequities.

Combined with proportional property taxation, this creates incentives for more efficient use of housing stock. Owners of high-value properties would face annual carrying costs reflecting true property values, encouraging more optimal allocation of housing resources.

According to IPPR (*Pulling down the ladder* (2021), a PPT would generate economic benefits in two main ways: first, by abolishing SDLT and encouraging more property transactions; and second, by boosting the disposable incomes of low- and middle-income households, which are more likely than wealthier homeowners to spend rather than save. IPPR estimate that these effects could raise GDP by over £3.3bn per year.

Regional and generational Impact

Distributionally, a PPT would ease the burden on households in lower-value homes, often located in less affluent regions, while asking more from owners of high-value properties, which are disproportionately concentrated in London and the South East. Regular revaluation would prevent these disparities from persisting over time.

Generationally, the current system penalises younger homeowners through higher effective rates and steep transaction costs. A proportional system would create a fairer spread across age groups, aligning tax liability with actual property wealth rather than the timing of purchase. This rebalancing particularly benefits younger households and first-time buyers, who currently face the double burden of high SDLT when purchasing and disproportionately high council tax relative to their property wealth.

Finally, abolishing SDLT would particularly benefit those early in their careers who need the flexibility to move for employment opportunities.

Revenue neutrality and stability

Designed as revenue-neutral initially, the proportional system offers greater long-term fiscal sustainability. Annual revaluation ensures the tax base grows with property values, providing an automatic revenue adjustment that maintains revenue in real terms without requiring rate increases.

This contrasts sharply with council tax, where the static band structure means revenue growth depends entirely on new construction or discretionary rate rises. The proportional system's responsive tax base provides more predictable funding for local government services.

Administrative efficiency

Combining SDLT and council tax into a single system reduces administrative complexity and compliance costs. HMRC and local authorities would no longer need to operate parallel systems with different rules, valuations and collection mechanisms.

In addition, 8.7m households would be removed from property tax altogether, as the obligation to pay is transferred to the landlord. This would save local councils £400m in annual administrative costs.

Transition challenges

Radical reform is easier on paper than in practice. Transitioning from council tax and SDLT to a PPT raises at least four major challenges:

1. **Cashflow for asset-rich, income-poor households**: No reform of this magnitude is painless. For households in high-value properties, especially those 'asset rich, cash poor,' deferral mechanisms would be essential. Onward's report proposes rolling liabilities into estates or allowing annual payment plans. Fairer Share supports these measures: no one should be forced to sell their home to pay an annual charge.

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2. **Political economy of losers**: While three-quarters may pay less, the top quartile – concentrated in London and the South East – will pay more. Past attempts at reform have floundered on this resistance. Politically, reform requires courage. Council tax has endured despite universal recognition of its flaws because it is familiar. SDLT, while unpopular, is paid begrudgingly. Replacing both with a visible annual charge would attract criticism, but if explained as revenue-neutral and redistributive, it could command support. Clear communication and gradual phasing are essential. To ease the transition, Fairer Share recommends capping any increase in local tax at £1,200 per year. This cap would lapse upon sale, as the new owner would benefit from the abolition of SDLT.
3. **Administrative capacity**: Implementing regular property valuations is a major undertaking. Yet modern data on transactions and automated valuation models make this more feasible than in the 1990s. Ireland's experience suggests it can be done at modest cost.
4. **Vulnerable households**: Local authorities could retain discretionary powers to provide additional support for vulnerable households, funded through their general revenue. This maintains local democratic accountability while ensuring basic protections exist.

Successful implementation requires careful transitional planning. A phased introduction over three to five years would allow households and local authorities to adjust gradually. During transition, the new system could operate alongside existing taxes with gradual rate adjustments until full replacement.

Geographic pilots in selected local authority areas could test operational procedures and identify implementation challenges before national rollout. This approach has proven successful in other major tax reforms and would build confidence in the new system's effectiveness.

Electoral popularity

Public opinion lends political heft to the argument for reform. A survey of 4,000 UK voters conducted by JL Partners for Fairer Share found that the public supports replacing council tax and SDLT with a PPT by a margin of over three to one (52% to 17%), with support as high as nine to one (61% to 7%) in parts of the North. These findings underscore that, beyond abstract notions of fairness and efficiency, property tax reform may well be a strategic electoral opportunity – one that aligns technical merit with voter sentiment.

Valuation methodology

Regular revaluation addresses one of council tax's greatest failings. Properties would be valued annually, ensuring the tax base reflects current market conditions rather than historical anomalies. This eliminates the political resistance that has prevented council tax revaluation for over three decades.

Critical to success is establishing a robust, regularly updated valuation system. Automated valuation models (AVMs), already widely used by lenders and estate agents, could provide annual valuations at minimal administrative cost. These models, which analyse comparable sales data and property characteristics, typically achieve accuracy within 5%–10% of market values.

Under a PPT, owners could self-assess the value of their property for tax purposes, with penalties for under-reporting. Sweden and Singapore, for example, successfully use self-assessment as part of their municipal property tax systems.

International case studies

The UK is unusual in relying so heavily on SDLT and tolerating such outdated valuation in its council tax system. Other countries offer instructive comparisons:

- **Denmark**: levies a municipal property tax ('grundskyld') at a percentage of land value. Reforms in 2017 created a central valuation authority to improve accuracy and transparency. This provides stable revenue and ensures fairness across regions.
- **France**: operates a 'taxe foncière' demonstrating how local property taxation can support municipal services.
- **Ireland**: after the financial crisis, introduced a Local Property Tax in 2013 based on self-assessed valuations, updated every few years. Despite initial resistance, compliance is high.
- **United States**: rates vary by state but property tax is the primary source of local revenue. The visibility of bills fosters accountability: residents know what they pay, and for what services.
- **Australia**: several states (e.g. New South Wales) levy land taxes annually, while also operating stamp duties. Notably, the NSW government has explored replacing stamp duty with an annual property tax, citing efficiency gains.
- **Singapore**: property tax is levied annually based on the Annual Value (AV) of a property, which represents the estimated annual rent the property could command if rented out. Property owners are required to self-assess the AV of their properties.

In contrast to the UK's frozen bands and punitive transaction taxes, these systems align tax liability more closely with actual property wealth, demonstrating that proportional property taxation is both practical and well-established rather than radical.

An opportunity not to waste

The UK's current property tax system is a relic of expedience and compromise. SDLT penalises those who move; council tax punishes those in poorer regions; PPR relief privileges property wealth over other forms of capital. Few defend the status quo.

Minor adjustments such as increased SDLT thresholds, additional council tax bands or narrowing PPR relief may offer modest benefit but risk compounding an already incoherent system. Nothing short of systemic reform – replacing SDLT and council tax with an annual, value-based property tax – will align the UK with international best practice.

Reform would be challenging, no doubt. But clinging to outdated and distortionary taxes for unsupported fear of political pushback risks perpetuating a system that is inefficient, unfair and unstable. Property taxation, more than almost any other area, is ripe for brave policymaking. The current Labour government is not short of evidence – only of courage. Whether it has the political will remains to be seen.

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For practitioners, the direction of travel matters. Clients seeking advice on property transactions, estate planning or investment structures increasingly ask whether SDLT reform is likely. While no Finance Bill currently contains wholesale change, the intellectual momentum is shifting. The Conservative government's 2020 temporary SDLT holiday illustrated both the fiscal cost and the political salience of the tax; HM Treasury's SDLT receipts series since 1980 underlines its volatility compared with more stable annual levies.

Tax professionals should also be alert to the growing interaction between property taxation and wider housing policy. HM Treasury's 2023/24 consultations on SDLT reliefs, HMRC's guidance on mixed-use property (SDLTM00395) and the political traction behind PPT campaigns suggest that reform is no longer confined to the academic fringe. The prudent approach is to assume that pressure for reform will intensify, and to begin considering how clients would fare under a shift from front-loaded transaction taxes to an annual charge on capital value. ■

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