# Chapter 6

# Help with housing costs

Following the 2012 Autumn Statement the detailed structure and scale rates for the new universal credit regime are now available, and despite anxieties about the very challenging timetable to prepare for its introduction, it is still planned (at the time of writing) to apply it for all new claims from October 2013.

Other welfare reforms will come into effect in 2013, and early evidence is now emerging on the impact of the reforms to the local housing allowance regime for private tenants introduced in April 2011. These welfare reform issues are discussed in Contemporary Issues Chapters 3 and 4.

The year 2012 also saw the ending of the housing subsidy regime for council housing in England. This creates new opportunities for councils' housing investment programmes, discussed in Contemporary Issues Chapter 2.

This chapter of the *Review* begins by expanding the regular analysis of the composition of the main taxes and tax reliefs that apply for private homeowners. This is followed by a short commentary drawing out some key developments from the *Review's* Compendium Tables on help with housing costs.

## The net tax position of homeowners

The abolition of mortgage interest tax relief for homeowners in 2000 significantly reduced the long-standing fiscal bias in favour or owning rather than renting – one of the factors in the continuing decline of the private rented sector in the UK through most of the twentieth century. However there is a continuing, if less pronounced, fiscal bias in favour of homeownership relative to private renting which was described in this chapter of last year's *Review* (2011/12 edition).

Table 2.6.1 **Private owner taxes and tax reliefs**

*£ millions*

| | 1995/96 | 1996/97 | 1997/98 | 1998/99 | 1999/00 | 2000/01 | 2001/02 | 2002/03 | 2003/04 | 2004/05 | 2005/06 | 2006/07 | 2007/08 | 2008/09 | 2009/10 | 2010/11 | 2011/12 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Taxes | | | | | | | | | | | | | | | | | |
| Inheritance tax | **429** | **440** | **480** | **496** | **611** | **684** | **769** | **870** | **999** | **1,166** | **1,300** | **1,409** | **1,486** | **1,053** | **913** | **1,041** | **1,112** |
| Stamp duty | **465** | **675** | **830** | **1,065** | **1,825** | **2,145** | **2,690** | **3,525** | **3,710** | **4,620** | **4,585** | **6,375** | **6,680** | **2,950** | **3,290** | **4,040** | **4,220** |
| Gross Tax | **894** | **1,115** | **1,310** | **1,561** | **2,436** | **2,829** | **3,459** | **4,395** | **4,709** | **5,786** | **5,885** | **7,784** | **8,166** | **4,003** | **4,203** | **5,081** | **5,332** |
| Tax Reliefs | | | | | | | | | | | | | | | | | |
| Imputed rental return tax relief (net) | **- 7,500** | **- 8,300** | **- 7,500** | **- 9,800** | **- 12,800** | **- 14,000** | **- 14,600** | **- 16,700** | **- 17,100** | **- 14,300** | **- 14,700** | **- 13,900** | **- 11,400** | **- 8,100** | **- 8,700** | **- 11,400** | **- 12,700** |
| Capital gains tax relief (gross) | **- 500** | **- 600** | **- 800** | **- 1,400** | **- 3,000** | **- 3,300** | **- 6,000** | **- 10,000** | **- 10,500** | **- 13,000** | **- 12,500** | **- 15,800** | **- 14,500** | **- 4,900** | **- 3,700** | **- 8,800** | **- 10,200** |
| Capital gains tax relief (net) | **- 330** | **- 396** | **- 528** | **- 601** | **- 1,287** | **- 1,416** | **- 2,574** | **- 4,290** | **- 4,505** | **- 5,577** | **- 5,363** | **- 6,778** | **- 6,221** | **- 3,234** | **- 2,442** | **- 5,808** | **- 6,732** |
| Total Net Tax Reliefs | **- 7,830** | **- 8,696** | **- 8,028** | **- 10,401** | **- 14,087** | **- 15,416** | **- 17,174** | **- 20,990** | **- 21,605** | **- 19,877** | **- 20,063** | **- 20,678** | **- 17,621** | **- 11,334** | **- 11,142** | **- 17,208** | **- 19,432** |
| Net tax position | **- 6,936** | **- 7,581** | **- 6,718** | **- 8,840** | **- 11,651** | **- 12,587** | **- 13,715** | **- 16,695** | **- 16,896** | **- 14,091** | **- 14,178** | **- 12,894** | **- 9,455** | **- 7,331** | **- 6,939** | **- 12,127** | **- 14,100** |

Source: HMRC Statistics (various years).

Notes: Estimates of capital gains tax relief are based on two-thirds of HMRC estimates to provide for roll-over relief. A further 35 per cent deduction has been applied for the years from 1998/99 to 2007/08 to allow for the CGT taper relief that applied in those years. It should also be noted that the stamp duty and inheritance tax yields are for all residential dwellings, and not just those occupied by homeowners. The imputed rental return tax relief is based on the asset values and mortgage debt figures from Table 45, average mortgage interest rates, net residential yield frigures from the IPD Index and standard rates of income tax.

The extent of the favourable treatment of homeowners is set out in Table 2.6.1. It shows the annual yield from the two taxes that do bear on homeowners – stamp duty and inheritance tax. Admittedly, both these taxes go rather wider than just owner-occupiers and tend to overstate the yield that relates exclusively to them. The stamp duty figures relate to all residential property transactions, while the estimates of the yield from inheritance tax (IHT) are based on the proportion of wealth in residential property held by all individuals subject to IHT, including non-corporate private landlords.

Council tax is not included as it applies to households in all tenures and is thus in a structural sense broadly tenure neutral (but see further below).

The table also shows estimates of the two primary continuing forms of tax relief enjoyed by homeowners – capital gains tax relief and tax relief on the imputed rental value of the home which the owner occupies. This imputed value was taxed until 1963 (albeit at a very low value), and was the logical counterpart (and offset) to mortgage interest tax relief. This was in parallel to the arrangements for private landlords as the rental value of owners' homes is an income 'in-kind' equivalent to the cash income a landlord receives from tenants.

It would have been logical for mortgage interest tax relief to be abolished at the same time as Schedule A tax, but in fact it was another 37 years before that occurred. Even then, the fiscal advantages of homeownership were consequentially reduced – not removed – since the absence of Schedule A tax (based on realistic values) has a very substantial net value even after full allowance is made for mortgage interest against gross imputed rental values.

HM Revenue and Customs (HMRC) estimates suggest the net value of Schedule A tax relief rose to over £17 billions in 2003/04, before falling back to just over £8 billions in 2008/09, and then rising again to £12.7 billions in 2011/12. The rise in recent years predominantly reflects the decline in the value of the mortgage interest offset against the gross value of Schedule A tax, as a consequence of falling interest rates.

While the methodology for these estimates could be refined it is robust enough to give a ball park indication of the very substantial value of that relief. However, it should be noted that if such a tax was ever levied it would reduce house prices; and this would in turn reduce the net income from the tax.

Table 2.6.1 also includes figures for the value of capital gains tax (CGT) relief enjoyed by homeowners (for the principal home). The gross figures are those provided by HMRC, which assume that the tax is levied at the full rate, without any provisions for the 'taper relief' that applied for the years from 1998/99 to 2007/08. Nor do they allow for 'roll-over relief' which defers the application of the tax when the proceeds from the sale of a home are fully re-invested in another home. This is typically a feature in those countries, such as Sweden, where the tax is applied to homeowners.

The estimated net values for CGT relief for homeowners in Table 2.6.1 take into account the taper relief provisions of the UK CGT regime (for the years that these applied) and also make provision for roll-over relief. The estimates do not, however, make any adjustment for the potential negative impact of the levying of CGT on house prices.

The credit crunch has seen a fall both in the yield from property taxes and in the value of the continuing tax reliefs, albeit with some recovery in the last two years. Nonetheless, Table 2.6.1 shows that the tax position for homeowners showed a £14 billions net advantage in 2011/12 – even without making any deduction from the proportion of stamp duty and inheritance tax revenues that are based on rented rather than owner-occupied dwellings.

## Stamp duty

The yield from stamp duty will tend to increase in the coming years as a result of the 2012 Budget decision to introduce a seven per cent rate on residential properties valued at over £2 millions from 2012/13. The rates for stamp duty on residential property sales applicable from March 2012 are shown in Table 2.6.2.

Table 2.6.2 **Rates for stamp duty on residential property sales (from March 2012)**

| Property sale price | Stamp duty rate |
|---|---|
| Up to £125,000 | **0%** |
| Over £125,000 to £250,000 | **1%** |
| Over £250,000 to £500,000 | **3%** |
| Over £500,000 to £1,000,000 | **4%** |
| Over £1,000,000 to £2,000,000 | **5%** |
| Over £2,000,000 | **7%** |

Source: Budget 2012.

The stamp duty increase was made in response to a wider proposal for a 'mansion tax' put forward by the Liberal Democrat wing of the Coalition government. These measures bring a more progressive element into the property tax regime; but the impact will be quite limited, due to the (still) small numbers of dwellings valued at over £2 millions. It is estimated that they will deliver some £150 millions in the first year, rising to £300 millions by 2016/17. While welcome at one level this will only make a marginal difference to the net £14 billions annual tax advantage accruing to existing owner-occupiers.

However stamp duty, as currently constructed, is not an ideal tax, other than in being relatively easy to collect and difficult to avoid (especially after the 2012 Budget reforms tightened the rules). Against that, it is in effect a tax on mobility as it affects households who move frequently more than those who do not. Such bias could be removed by recasting stamp duty as a form of capital gains tax.

Stamp duty also has a 'slab' structure where the higher rates apply to the whole value of properties once they exceed key threshold levels (see Table 2.6.2). The consequence is a distorting, bunching effect on house prices just below each threshold level.

It is also of interest that in Scotland there are proposals to replace stamp duty from 2015, and the consultation document[1] articulates the limitations of the current 'slab' structure of the tax and puts forward the option of instead adopting a 'progressive' approach. The consultation document is, however, coy on details, and if the reform is to be cost-neutral it will inevitably involve a much higher marginal rate of duty for the higher bands of property values.

## Council tax

The tax not included in Table 2.6.1 is council tax, as it is something of a hybrid and is only in part a property tax. It is an annual 'use tax' – levied on all occupiers not just property owners. In the private rented sector, for example, tenants pay council tax while their landlords pay income or corporation tax on net rental incomes. That said, the top rate of council tax currently applies to properties valued at over £320,000 in 1991, or just under £1 million in current values. A new higher band of council tax for properties valued at £2 millions or more (or some £650,000 at 1991 values) would have been a logical complement to the new higher rate of stamp duty.

The more fundamental reform, however, would be to widen the differential in the council tax rates paid for properties in different price bands. The current differentials are regressive, and bear down disproportionately on occupants of low-value properties while providing little disincentive for overconsumption of housing by under-occupiers of large homes.

Properties with values in excess of £320,000 (at 1991 values) pay council tax at the highest band rate, which is only three times greater than the rate applied to the lowest band, for properties values at under £40,000 in 1991. To be proportionate, the rate for the highest band would need to be at least eight times that for the lowest band; to be progressive the differential between the highest and lowest rate would need to be greater still.

While all these options were considered by the Lyons Inquiry[2] that reported in 2007, nothing ever came of the proposals, and there is even less prospect of change at a time when central government has (so far) cut ten per cent from the funding for council tax benefit (CTB) across Great Britain, and in England has left local councils to devise their own methods of reducing the value of the benefit, with the caveat that it should not be cut for pensioner households.

The cuts – and restructuring – of council tax benefit will be problematic in several ways, and will also complicate the position for the wider welfare reforms being introduced at more or less the same time (see Contemporary Issues Chapter 4). Scotland has decided to retain the current council tax benefit scheme, despite the reduction in UK government support. While this is a helpful move, there will nonetheless still be issues in Scotland about the interaction between universal credit and CTB schemes.

## Consequences of inertia

There are no immediate prospects of a UK government fundamentally reducing the very substantial net tax advantages for existing homeowners. This is partly politics, and partly their low visibility – particularly in respect of the tax relief on the 'in-kind' benefit of rental values which is an unfamiliar idea outside economic and taxation theory and history. That said, the inclusion of homeowner rental values in the new CPIH inflation measure may make this a more familiar concept in years to come (see Commentary Chapter 1).

Meanwhile, the practical importance of the reliefs needs to be recognised, especially when there are debates about the more visible elements of the tax package for homeowners, or about the respective tax treatment of private landlords. It is also notable that these reliefs are almost entirely regressive and favour most those households owning the most expensive dwellings in the country. They have also become part of the barrier that must be crossed by young households entering the sector, as the benefits of limited taxation for existing owners have effectively been factored into the higher house prices they face.

## End game for social sector subsidies

The latest data on the operation of the old subsidy regimes in England, Scotland and Wales are set out in Compendium Table 109. This shows a net 'negative' subsidy for council housing in 2010/11 of almost £½ billion. The 2011/12 figures for England, when published, will be the last before the debt restructuring exercise brought the annual subsidy regime to an end in April 2012 (see Contemporary Issues Chapter 2). That completed a sequence of net annual flows of 'negative' subsidy to HM Treasury, but in compensation it received £7.6 billions (net) from local authorities as a key element of the debt restructuring exercise.

While this will end (at least for England) any public accounts measures of housing subsidies, it will leave in place the economic subsidies implicit in rents that remain below full market values. Their value for the council sector (i.e. the difference between social and market rents) was estimated at £3.7 billions in 2007/08 and for the housing association sector at £3.1 billions.[3] The extent of these economic subsidies is set to fall with the spread of Affordable Rents within the social sector in England (see Commentary Chapters 4 and 5).

## Take-up rates

One of the critical measures of the effectiveness of a means-tested benefit is the 'take-up rate': a low rate is an indication that the benefit is only reaching a small proportion of the households intended as its beneficiaries. One of the strong cases for the current welfare reforms is the relatively low take-up rate for housing benefit by working households (around 50 per cent).

The latest available take-up figures for housing benefit and council tax benefit (for 2009/10) are shown in Compendium Tables 117a & 117b. It is pleasing to report that, following a consultation exercise, DWP has dropped proposals to stop the production and publication of these statistics. They will clearly need to be adapted to focus on the new benefit structures that will emerge from welfare reform (see Contemporary Issues Chapter 4) but they will also be vital to our understanding of how well those reforms work.

## Benefits statistics

Policy changes, as well as the impact of government expenditure cuts, have altered the routinely available data relating to housing benefits and to the benefits for out-of-work owner-occupier households. At the same time some of those limitations are partially made good by the results of a variety of ad hoc analyses that have been published by DWP.

The revised form of the regular housing benefit statistics provides caseload numbers split between the social rented sector and the private sector at national, regional and local levels. Unfortunately, more detailed splits within those two tenure groups are only provided at the Great Britain level, as is also the case for data on the average levels of housing benefit payments.

Nonetheless the published data from the old and new forms of the housing benefit statistics do make it possible to provide a time series of numbers of housing benefit claimants in the social and private rented sectors at regional level, and these are set out in Table 2.6.3.

This shows, for example, not just the more rapid rise in claimant numbers in the private rented sector relative to the social rented sector, but the particularly sharp rise in the numbers of claimants privately renting in London. This is, of course, part of the backdrop to the caps on maximum LHA rates in London, that are now resulting in a reduction in claimant numbers in central London, if not across London as a whole (discussed in Contemporary Issues Chapter 3).

While the routinely published data do not now show the regional and local variations in average housing benefit payments, data for June 2011 and March 2012 have been provided through the ad hoc analyses published on the DWP website. The national and regional figures for the social and private rented sectors from that source are set out in Table 2.6.4. They show the decline in the average payments in the private rented sector over that period, a consequence of the lowering of the LHA rates from April 2011 (also discussed further in Contemporary Issues Chapter 3).

Table 2.6.3 **Numbers of housing benefit claimants in the social and private rented sectors**

*Thousands*

| Country/Region | 2002 | | 2003 | | 2004 | | 2005 | | 2006 | | 2007 | | 2009 | | 2010 | | 2011 | | 2012 | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Social | PRS | Social | PRS | Social | PRS | Social | PRS | Social | PRS | Social | PRS | Social | PRS | Social | PRS | Social | PRS | Social | PRS |
| Great Britain | **3,094** | **715** | **3,082** | **715** | **3,136** | **744** | **3,167** | **790** | **3,152** | **838** | **3,107** | **923** | **3,193** | **1,273** | **3,294** | **1,455** | **3,324** | **1,552** | **3,823** | **1,646** |
| North East | **200** | **38** | **197** | **38** | **194** | **38** | **192** | **37** | **189** | **39** | **181** | **46** | **187** | **59** | **190** | **67** | **191** | **71** | **192** | **77** |
| North West | **405** | **108** | **398** | **108** | **405** | **109** | **405** | **112** | **398** | **115** | **391** | **128** | **398** | **170** | **408** | **192** | **412** | **205** | **418** | **217** |
| Yorkshire and The Humber | **281** | **65** | **277** | **65** | **279** | **62** | **282** | **64** | **277** | **66** | **276** | **75** | **278** | **107** | **289** | **125** | **291** | **135** | **29** | **147** |
| East Midlands | **183** | **41** | **187** | **41** | **191** | **42** | **195** | **44** | **196** | **48** | **190** | **53** | **204** | **81** | **210** | **94** | **212** | **100** | **217** | **109** |
| West Midlands | **297** | **53** | **297** | **53** | **293** | **54** | **293** | **59** | **298** | **65** | **293** | **75** | **306** | **107** | **317** | **122** | **319** | **130** | **324** | **138** |
| East | **217** | **51** | **220** | **51** | **224** | **54** | **227** | **59** | **229** | **64** | **230** | **70** | **244** | **102** | **253** | **115** | **257** | **122** | **263** | **129** |
| London | **493** | **104** | **506** | **104** | **525** | **116** | **544** | **132** | **544** | **142** | **550** | **143** | **538** | **214** | **547** | **251** | **552** | **270** | **563** | **281** |
| South East | **276** | **88** | **274** | **88** | **284** | **96** | **292** | **105** | **294** | **113** | **297** | **118** | **309** | **167** | **322** | **190** | **328** | **199** | **336** | **209** |
| South West | **184** | **75** | **184** | **75** | **190** | **78** | **194** | **81** | **194** | **87** | **196** | **90** | **204** | **124** | **213** | **140** | **214** | **150** | **219** | **158** |
| England | **2,535** | **623** | **2,538** | **623** | **2,584** | **649** | **2,623** | **692** | **2,620** | **738** | **2,605** | **797** | **2,667** | **1,133** | **2,750** | **1,296** | **2,776** | **1,381** | **3,270** | **1,464** |
| Wales | **157** | **44** | **153** | **44** | **156** | **44** | **154** | **46** | **14** | **47** | **153** | **48** | **155** | **69** | **162** | **74** | **164** | **80** | **166** | **85** |
| Scotland | **401** | **48** | **390** | **48** | **396** | **51** | **390** | **53** | **378** | **53** | **352** | **78** | **371** | **71** | **382** | **85** | **384** | **91** | **387** | **97** |

Source: Housing Benefit and Council Tax Benefit Summary Statistics, DWP.
Notes: All figures are for May of the year, except for 2009, which is for August. No figures are available for 2008.

Table 2.6.4 **Average weekly housing benefit payments in the social and private rented sectors**

*£ per week*

| Country/Region | June 2011 | | March 2012 | |
|---|---|---|---|---|
| | Social | PRS | Social | PRS |
| Great Britain | **76.17** | **111.18** | **77.20** | **107.24** |
| North East | **65.14** | **85.69** | **65.64** | **82.56** |
| North West | **69.17** | **90.39** | **70.16** | **86.85** |
| Yorkshire and The Humber | **63.95** | **83.96** | **64.90** | **80.56** |
| East Midlands | **66.25** | **85.37** | **66.70** | **82.27** |
| West Midlands | **70.61** | **93.20** | **73.08** | **89.95** |
| East | **77.47** | **105.76** | **78.54** | **102.74** |
| London | **106.34** | **184.36** | **107.06** | **178.58** |
| South East | **83.45** | **116.62** | **85.09** | **113.52** |
| South West | **73.35** | **98.68** | **74.94** | **96.03** |
| England | **78.48** | **113.90** | **79.66** | **109.90** |
| Wales | **69.30** | **83.68** | **69.62** | **80.77** |
| Scotland | **62.32** | **93.67** | **62.49** | **89.97** |

Source: Ad hoc statistical analyses, DWP website.

## Key Reading

Department for Work and Pensions (2012) *Annual Report and Accounts 2011/12* (see www.official-documents.gov.uk/document/hc1213/hc00/0053/0053.asp).

Department of Work and Pensions Statistics (see http://research.dwp.gov.uk/asd/).

DWP Housing benefit and council tax benefit: summary statistics, quarterly series (see http://research.dwp.gov.uk/asd/index.php?page=hbctb).

HMRC statistics (see www.hmrc.gov.uk/thelibrary/national-statistics.htm).

## References

1 Scottish Government (2012) *Taking forward a Scottish Land and Buildings Transaction Tax* (see www.scotland.gov.uk/Publications/2012/06/1301).

2 HM Government (2007) *The Lyons Inquiry into Local Government, Final Report*. London: The Stationery Office (see www.lyonsinquiry.org.uk/).

3 Wilcox, S. (2009) *Social rents and economic subsidies*. Housing Revenue Account Review Rents and Service Charges Working Paper. London: DCLG.