Reforming property tax: Dampening further property speculation in the housing crisis

Policy briefing | Alex Diner and Sam Tims | November 2023

Summary

In conjunction with the Homes for Us alliance of grassroots organisations and campaigners, the New Economics Foundation is developing policies to fix England’s broken housing model. Tax reform is an important tool to do so. It can close loopholes, raise revenue to invest in more social homes, and shape behaviour to achieve wider policy objectives, such as increasing the volume of homes that are of secure tenure (homes for social rent and owner occupation).

The longstanding competitive advantage that some landlords have enjoyed over other home buyers has become blunted in recent months. Rising interest rates have squeezed the rental profits of mortgaged landlords, with some selling their properties. But this is no exodus. Proposed regulatory changes, surging interest rates, and recent tax reforms have dampened speculation among smaller, more heavily mortgaged landlords, but not among larger, equity-rich landlords, who are less reliant on borrowing and now enjoy even greater power in the market. The result is that equity-rich investors are elbowing out first-time buyers and social landlords, who rely on expensive borrowing.

That some distressed landlords wish to sell their homes should be an opportunity for first time buyers and social landlords to acquire these properties and convert them to a more secure tenure. But the additional leverage now being exerted by equity-rich investors means this opportunity is being squandered. Equity-rich landlords and overseas speculators also have a greater propensity to leave their homes empty or convert their properties to holiday lets, which is likely to be driving down supply in the private rented sector (PRS) and pushing up rents.

Tax reform – particularly around stamp duty - would help level the playing field by curbing equity-rich investors’ ability to buy more homes. Crucially, as a tax on acquisitions, increases to the stamp duty incurred by speculators will not encourage them to sell existing properties and therefore cannot be said to contribute to any putative “exodus” of landlords. What it would do is tilt power towards first time buyers and social landlords to acquire
these properties and convert these homes to a more secure tenure. Depending on the increases implemented and the extent to which the number of transactions were impacted, these reforms could also raise an additional £3.4-£5.7bn in 2024/25.¹ This could potentially more than treble the size of government expenditure on social and affordable house building, enough to deliver grant funding for an additional 18,600-31,100 new social homes.²

The case for property tax reform

For decades, individuals have been encouraged to speculate on buy-to-let properties to invest their savings, generate additional income, and save for their retirement. Policymakers awarded landlords competitive advantage in the housing market, which, alongside tightened lending in the years following the global financial crisis, hurt first time buyers and led to a rapidly expanding PRS.

¹ Potential SDLT reform revenue presumes transactions remain stable.
² Assumes average capital grant for new home for social rent is £183,000: National Housing Federation, Capital grant required to meet social housing need in England 2021-2031, p3 https://www.housing.org.uk/resources/capital-grant-required-to-meet-social-housing-need-in-england-2021-2031/. This figure is illustrative only and does not preclude the underspend to which government expenditure on affordable house building was subject in 2022/23: Stacey, K., ‘Gove’s department hands back £1.9bn meant to tackle England’s housing crisis’, The Guardian (12 July 2023) https://www.theguardian.com/society/2023/jul/12/gove-department-hands-back-19bn-meant-tackle-england-housing-crisis.
Figure 1: The proportion of private rented sector homes has almost doubled since the introduction of Buy-to-Let mortgages

Proportion of English households by tenure, 1996 to 2021-22

Source: Department for Levelling Up, Housing and Communities, English Housing Survey 2021-22, Annex Table 1.1

First, landlords’ tax liabilities have been light-touch. Unlike nearly all other self-employed persons, most landlords do not incur mandatory national insurance contributions (NICs), instead benefitting from a de facto exemption. Many fail to even declare property income - the subject of ongoing HMRC campaigns³ that have made little inroad into the estimated £1.7bn in annual uncollected taxes.⁴ Furthermore, until recently landlords faced no additional acquisition costs compared to other homebuyers, and could claim 100% tax relief on their mortgage interest payments. Since 2016 the government has introduced a number of reforms that have increased tax on property, including a 3% higher rate of Stamp Duty Land Tax (SDLT) for additional dwellings (HRAD),⁵ the introduction of a 2% higher rate of stamp

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⁴ Tax Watch, Landlord tax evasion costing up to £1.7bn a year https://www.taxwatchuk.org/landlord_tax_evasion/

duty for non-resident purchasers (NRSDLT), and the reduction of mortgage interest relief to 20%.

Second, financial regulation has allowed landlords to exert disproportionate leverage in the housing market, squeezing out those unable to summon sizeable deposits, particularly first-time buyers. The introduction of buy-to-let mortgages in 1996 allowed borrowing against current income and rent, typically on an interest-only basis. This competitive advantage allows investors to pay less than other homebuyers for the same properties.

Landlords are now, however, operating in a harsher financial environment. Average buy-to-let mortgage interest rates have increased significantly since the start of 2022, and particularly since the government’s ill-fated fiscal statement in September 2022. Average variable rates have risen from 4.07% to 6.69% over the last 12 months to October 2023. For the 42% of landlords on an interest-only mortgage, the exposure to rising rates has been significant, particularly given that they can now only offset 20% of their borrowing costs against their tax bill. However, almost two fifths of landlords have no borrowing costs, meaning not only has their rental income not been adversely affected by rate rises, but those who have raised rent have seen their profits soar.

Third, landlords have benefitted from a minimal regulatory burden. There are only limited restrictions on the rent landlords can charge, and they have numerous grounds to evict tenants, including ‘no fault’ evictions. These have fundamentally imbalanced the landlord-tenant relationship, empowering the former in negotiations around rent and repairs. Landlords face minimal safety regulations and are only bound to ensure their properties meet energy performance certificate (EPC) rating ‘E’.

3a. Total receipts over this period amounted to £10.1bn, of which £2.2bn was refunded. Between 2016/17 and 2021/22 this yielded an additional £7.9bn net tax revenue
6 HMRC, Guidance: Rates of Stamp Duty Land Tax for non-UK residents (8 March 2021)
https://www.gov.uk/guidance/rates-of-stamp-duty-land-tax-for-non-uk-residents
7 HMRC, Guidance: Tax relief for residential landlords: how it’s worked out (20 July 2016)
https://www.gov.uk/guidance/changes-to-tax-relief-for-residential-landlords-how-its-worked-out-including-case-studies
8 Bracke, P., ‘How much do investors pay for houses?’, Real Estate Economics (8 March 2019)
9 Wright, J., ‘What’s happening to buy-to-let mortgage rates?’, Which? (6 October 2023)
https://www.which.co.uk/news/article/whats-happening-to-buy-to-let-mortgage-rates-aPCwx0Y6FH3h
The government has recently proposed enhanced regulation through the Renters (Reform) Bill. Ministers have, however, indefinitely delayed plans to scrap ‘no fault’ evictions and backtracked on proposals for higher energy efficiency standards in the PRS. Nonetheless, landlords’ concerns about the costs of higher standards are unlikely to have dissipated, given that Labour has said it would proceed with these reforms in government.

Favourable tax liabilities, finance, and a minimal regulatory burden combined to provide landlords a longstanding competitive advantage in our housing system that accelerated the growth of the PRS. However, changing circumstances, particularly rising interest rates, means the competitive advantage enjoyed by landlords has now been blunted for some.

An “exodus” of landlords?

Has the end of this era resulted in landlords selling en masse? Earlier this year, the National Residential Landlords Association (NRLA) described the post-2016 tax changes as part of a “hostile environment” that has produced an “exodus” of landlords. The reality is far more complex, a fact which has been belatedly acknowledged by the NRLA itself.

Almost two fifths of landlords own their properties outright and are therefore unaffected by the reforms to interest relief, making significant profits partly because of their minimal expenses. Furthermore, most landlords benefit from significant capital profits once they sell their properties.

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12 Department for Levelling Up, Housing and Communities, A fairer private rented sector (16 June 2022); House of Commons, Renters (Reform) Bill https://bills.parliament.uk/bills/3462
13 Seddon, P., & Nevett, J., ‘No-fault eviction ban delayed indefinitely by court reforms’, BBC News (24 October 2023); Cuffe, G., ‘Sunak scraps energy efficiency targets in move dubbed ‘hugely disappointing’ by housing sector’, Inside Housing (20 September 2023)
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property, as they reap decades of sustained house price increases driven by the dysfunctions in our housing model.\(^{19}\)

It is difficult to know with certainty what is happening within the PRS because of huge gaps in the data and time lags.\(^{20}\) Notwithstanding this, inferences from some data do not suggest a landlord “exodus”.\(^{21}\) As illustrated in figure 1, the proportion of PRS homes has remained broadly stable between 2013/14 and 2021/22.\(^{22}\) More recently, any mass selling of property would be reflected in a sharp rise in capital gains tax (CGT) payable for property transactions and rising receipts over the last year, instead of the normal fluctuations evident.\(^{23}\)


\(^{20}\) The Commons Levelling Up, Housing and Communities Select Committee has concluded that the government does not know what is happening in the PRS. Commons Levelling up, Housing and Communities Select Committee, Fifth Report – Reforming the Private Rented Sector (9 February 2023), p42 https://publications.parliament.uk/pa/cm5803/cmselect/cmcomloc/624/summary.html


\(^{22}\) Department for Levelling Up, Housing and Communities, English Housing Survey 2021-22, Annex Table 1.1. The latest available data is for 2021/22, and so may be subject to a time lag.

\(^{23}\) York, M., ‘What’s really going on inside Britain’s broken rental market’, The Times (4 August 2023) https://www.thetimes.co.uk/article/what-s-really-going-on-inside-britain-s-broken-rental-market-qstj00bm#:~:text=Advertisement-,The%20number%20of%20private%20rented%20properties%20is%20not%20keeping%20pace,industry%20body%20ARLA%20Propertymark; Birch, J., ‘Is there really an exodus of private landlords?’, Inside Housing (11 August 2023) https://www.insidehousing.co.uk/comment/comment/is-there-really-an-exodus-of-private-landlords-82683
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Figure 2: Capital Gains Tax property receipts have not surged

Number of taxpayers incurring capital gains tax for property and the amount of tax paid, April 2021 to March 2023

Source: HMRC, Capital Gains Tax statistics, table 8: estimated number of taxpayers and amount of gains and tax liabilities on residential property disposals

There is little doubt, however, that recent circumstances have impacted on some landlords, particularly those with significant borrowing. With rising interest rates, some unincorporated landlords with mortgages no longer make profit on rents, despite imposing significant monthly rises on their tenants, because they can now claim only limited tax relief on their interest payments.

While many prospective first time buyers have struggled, equity rich actors – such as portfolio landlords – are in a far better position to exercise greater leverage in the market. They can access better rate loans or using cash-only purchases to circumvent interest rate rises and take advantage of stagnating property prices. Savills have calculated that the proportion of cash transactions is currently 3.5% higher than the 2017-19 average.24

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buyers – a not insignificant proportion of whom are landlords – obtain sizeable effective discounts when buying homes.\textsuperscript{25}

**Figure 3: The proportion of cash-only property transactions has increased alongside rising interest rates**

*Proportion of cash-only purchases and Bank of England base rate since December 2019*

![Graph showing the proportion of cash-only purchases and Bank of England base rate from December 2019 to June 2023.]

Source: HMRC, Capital Gains Tax statistics, table 8: estimated number of taxpayers and amount of gains and tax liabilities on residential property disposals.

As larger scale landlords and overseas buyers are more likely to keep their properties empty, this also reduces available supply and pushes up rents.\textsuperscript{26} The number of empty homes in England overall rose by 3.6\% from 653,025 to 676,304 in the 12 months prior to October 2022, including a rise of 4.6\% from 237,340 to 248,149 in long term vacant properties across the same period.\textsuperscript{27}

Moreover, landlords with larger holdings are less likely to let their homes efficiently. Those with over five properties are ‘considerably more likely’ to replace their long-term lets with

\textsuperscript{25} Harvey, E., ‘Cash buyers in the north west get biggest discounts on property’, *Buy Association* (25 August 2023) [https://www.buyassociationgroup.com/en-gb/2023/08/25/cash-buyers-discounts/](https://www.buyassociationgroup.com/en-gb/2023/08/25/cash-buyers-discounts/). The other principal group purchasing homes cash-only are homebuyers without a mortgage, the proportion of which has remained stable at 35\% between 2019/20 and 2021/22, most of the period covered in figure 3. See figure 1.

\textsuperscript{26} Wallace, A., Rhodes, D., & Webber, R. (2017). Overseas investors in London’s new build market. Greater London Authority. [https://eprints.whiterose.ac.uk/117771/](https://eprints.whiterose.ac.uk/117771/)

short-term lets, which also reduces available supply for standard lettings and pushes up rents. Further research conducted in 2020 – that is before the current confluence of interest rates and falling house prices – shows that 10% of landlords said they would consider switching to short-term lettings, and that the increased flexibility and the prospect of regulatory reform are important motivations. As tax requirements on standard residential lettings have become greater, the advantages for some landlords to convert their properties to short-term lettings have been exacerbated. In 2020/21, income from short-term lets outstripped traditional buy-to-let income for the first time.

Demand too rose by an estimated 20% in the 12 months following October 2021. 307,000 young adults moved out of their family homes after the pandemic into the PRS. Factoring in first time buyers unable to buy because of rising interest rates, it is clear that demand has also risen sharply commensurate with this inefficient use of PRS homes.

All this feeds into rising rents. In the year to October 2023, total average UK rents climbed by 6.1%. For new lets, the increase was 10% in the year up to Q3 2023, including a rise of 12.1% in London. Tenants have little choice but to accept high cost, low quality PRS accommodation, for which there is fierce competition. This is hitting low-income households the hardest, where housing support for PRS tenants has been frozen at 2019/20

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30 Propertymark, *The impact of short-term/holiday lets on UK housing* (25 October 2022)
https://www.jrf.org.uk/report/reboot-building-housing-market-works-all
32 Jones, R., ‘Private rents in Britain hit record highs, with 20% rise in some areas’, *The Guardian* (21 October 2022) https://www.theguardian.com/finance/2022/10/21/private-rents-britain-hit-record-high-demand-properties
33 Generation Rent, *The real reason rents have been rocketing* (19 June 2023)
https://www.generationrent.org/2023/06/19/the-real-reason-rents-have-been-rocketing/
34 Office for National Statistics, *Index of Private Housing Rental Prices, UK: October 2023* (15 November 2023)
https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/indexofprivatehousingrentalprices/october2023
36 BBC News, *Exhausting, costly, miserable: My search to rent a one-bed flat* (16 February 2023)
https://www.bbc.co.uk/news/uk-64625435
levels. Three-fifths of private renters can now no longer afford a decent standard of living,\(^{37}\) and only 5% of PRS homes are affordable to housing benefit recipients.\(^{38}\)

In summary, alongside proposed regulatory changes and surging interest rates, recent tax reforms have dampened speculation among smaller, more heavily mortgaged landlords, but not among larger, equity-rich landlords, who now enjoy even greater power in the market. That some distressed landlords wish to sell presents an opportunity for these homes to be bought by first time buyers and social landlords, in order to convert these homes to a secure tenure. The government should therefore make it easier for local authorities to acquire these homes, as Labour has said it would.\(^{39}\) But targeted tax reform would also help dampen property speculation from equity-rich actors and boost the competitiveness of owner occupier buyers and social landlords, who rely on expensive borrowing.

**Stamp duty reforms**

SDLT and council tax are both deeply flawed. They should be abolished and replaced with a new proportional property tax like that proposed by Fairer Share.\(^{40}\) But reticence from policymakers has so far quashed attempts to do so,\(^{41}\) despite rising concerns about their equity and effectiveness.\(^{42}\) If SDLT is to be retained, options remain to reform it. Crucially, as


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a tax on acquisitions, increasing SDLT would not encourage landlords to sell and therefore cannot be said to contribute to any putative “exodus” of landlords.

The non-resident stamp duty surcharge

The number of UK properties owned by overseas residents tripled between January 2010 and August 2021;\(^\text{43}\) 250,000 homes are now estimated to be owned by overseas nationals.\(^\text{44}\) As of July 2022, non-UK residents owned £90.7bn of property in England and Wales, half of which is in London.\(^\text{45}\) The rise in interest rates, favourable currency rates and falling prices have put these speculators in prime position to take advantage. This is a driver of the inefficient distribution of our homes, with a disproportionate volume of homes owned by non-UK residents kept empty.\(^\text{46}\)

When the government introduced the 2% NRSDLT for overseas buyers purchasing property in England and Northern Ireland from 2021, its stated objective was to “help make house prices more affordable, helping people get onto and move up the housing ladder in line with wider objectives on homeownership”.\(^\text{47}\) On these terms it is failing. Despite the limited time in which it has been in operation, the surcharge has not reduced the proportion of homes purchased by non-resident buyers. In 2021/22, 18,300 transactions were subject to the surcharge (1.6% of residential transactions), increasing to 21,900 in 2022/23 (2% of residential transactions). In total, 44,400 transactions incurred the NRSDLT between Q2 2021 and Q2 2023, more than double HMRC’s previous estimate of 21,500 for this period.


\(^{44}\) Property Reporter, 'Could raising stamp duty for overseas buyers level the playing field for nationals? (15 February 2023) https://www.propertyreporter.co.uk/could-raising-stamp-duty-for-overseas-buyers-level-the-playing-field-for-nationals.html


**Figure 4: The proportion of property transactions incurring the non-resident surcharge has increased since its introduction**

**NRSDLT receipts and transactions as a proportion of residential transactions, Q2 2021 – Q3 2023**

Source: HMRC, Quarterly Stamp Duty Land Tax statistics tables (31 October 2023), Table 1b and 3c

Note: Q2 2022 - Q3 2023 provisional. Due to recent methodological changes, caution should be taken when comparing HRAD data from before and after Q2 2022.

For the surcharge to deliver on its objectives, the government should raise the tax to, as a minimum, the point at which it starts to act as a deterrent for further speculation. On this basis, the National Association of Property Buyers have argued that the surcharge should be doubled to 4%. While Labour has recently announced it will raise the surcharge, they have not specified a rate.

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48 *Property reporter*, Could raising stamp duty for overseas buyers level the playing field for nationals? (15 February 2023) https://www.propertyreporter.co.uk/could-raising-stamp-duty-for-overseas-buyers-level-the-playing-field-for-nationals.html

Most Australian states have imposed overseas surcharges of between 7% and 8%. This has resulted in a reduction of overseas purchases from 10,500 in 2017/18 to 7,500 in 2019/20. By 2021/22 the number of transactions had fallen further to 4,300.

Other comparable countries also take more stringent action in relation to overseas investment than the UK. Singapore has recently doubled the rate of stamp duty incurred by overseas purchasers of property from 30% to 60%. Denmark, Austria, and Switzerland require set-periods of residence, permission, and long-term permits respectively before non-residents can purchase property. Canada has introduced a two-year total ban on overseas residential property acquisitions.

If overseas speculation in UK property is to be dampened, the government should follow the examples set internationally by significantly strengthening the non-resident surcharge. The Welsh and Scottish governments should also introduce a surcharge to dampen speculation there. Figure 5 shows the relationship between different rates of NRSDLT and the potential impact on transactions.

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50 State Revenue Office, Victoria, *Foreign purchasers of property*  
[https://www.revenuesa.sa.gov.au/stampduty/FOS#:~:text=Foreign%20persons%20(which%20includes%20natural,interest%20in%20residential%20land); Western Australia, *Complete a foreign buyers duty declaration*  


52 Ruehl, M., ‘Singapore doubles property stamp duty for foreigners to 60%’, *Financial Times*, 27 April 2023  
[https://www.ft.com/content/00a4c68b-ed4f-4154-b56b-c70705d17042](https://www.ft.com/content/00a4c68b-ed4f-4154-b56b-c70705d17042)

53 Lavelle, S., Sparks, R., & Falciani, G., ‘Why more Countries Are Banning Foreigners from Buying Real Estate’, *Worldcrunch* (25 January 2023)  
[https://worldcrunch.com/business-finance/bans-on-foreigners-buying-houses](https://worldcrunch.com/business-finance/bans-on-foreigners-buying-houses); Ministry of Foreign Affairs of Denmark, *Foreign Citizens’ Acquisitions of Property in Denmark*  

54 Government of Canada, *Prohibition on the Purchase of Residential Property by Non-Canadians Act*  
[https://laws-lois.justice.gc.ca/eng/acts/P-25.2/page-1.html](https://laws-lois.justice.gc.ca/eng/acts/P-25.2/page-1.html)
Figure 5: Increasing the surcharge could deter overseas buyers and protect revenue

Projected revenue change from NRSDLT reforms as a function of transaction change, based on expected average 2024/25 price of property incurring the NRSDLT

Source: NEF estimates using HMRC Quarterly SDLT statistics tables (31 October 2023), Table 1b and 3c. Zoopla forecasts are used to obtain expected 2024/25 property prices.

If transactions remained stable, doubling or tripling the surcharge would increase revenue by an estimated £220 million and £430 million in 2024/25 respectively. But an increased surcharge could help deter investors. If the primary objective of a higher rate was achieved – a reduction in the number of properties bought by overseas investors – then a higher NRSDLT would also protect revenue. Transactions would need to reduce by more than 5,100 (30%) for even a moderately increased 3% NRSDLT to not raise more tax than the current 2% surcharge.

After raising the surcharge, the Treasury should review its impact and calibrate it to strike the desired balance between reducing overseas property speculation, in accordance with the policy’s stated objectives, and raising revenue.

The additional rate (HRAD)

In 2022/23, there were around 22,000 property transactions incurring the NRSDLT. This is dwarfed by the 241,000 transactions that attracted the 3% HRAD rate for multiple home
owners, with a further 37,000 transactions in Scotland and Wales attracting their equivalent surcharges. The impact of reforming the HRAD therefore offers even greater scope for curbing property speculation, raising revenue and delivering better outcomes for our housing system compared to raising NRSDLT.

While the introduction of the HRAD has mitigated some of the advantages enjoyed by multiple homeowners, it has not led to a significant decline in their acquisitions. When devising the policy, the government anticipated that around 10% of all transactions would incur the charge. Yet in England and Northern Ireland, transactions incurring the charge occupied the same proportion of all transactions in 2022/23 as they did in 2017/18 (22% once the first quarter is discounted), suggesting that their relative strength in the property market has not been curtailed.

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55 HMRC, Quarterly Stamp Duty Land Tax statistics tables (1 August 2023), Tables 2a and 3c, https://www.gov.uk/government/statistics/quarterly-stamp-duty-land-tax-sdlt-statistics


Figure 6: The proportion of property transactions incurring surcharge for multiple homeowners has remained broadly steady across the UK

Proportion of residential property transactions incurring HRAD in England and Northern Ireland, ADS in Scotland and higher rates in Wales, Q2 2016 – Q3 2023

Source: HMRC, quarterly SDLT statistics tables (31 October 2023), table 3b. Revenue Scotland, monthly land and building transactions tax statistics (30 October 2023), table 3. Welsh Revenue Authority, monthly land transaction tax statistics (30 October 2023), table 1

Note: HRAD Q2 2022 - Q2 2023 provisional, ADS Q4 2021 - Q3 2023 provisional, higher rates Q2 2023 provisional. Due to recent methodological changes, caution should be taken when comparing HRAD data from before and after Q2 2022.

In Scotland, the proportion of transactions facing the additional dwelling supplement (ADS) has fallen since the beginning of the year, but, like in England and Northern Ireland, this reduction has not been substantial. This is despite Holyrood having increased the ADS twice from 3% to 4% in January 2019 and again to 6% in December 2022. Over a longer time period transactions have remained broadly stable. However, between January and September 2023, net ADS receipts increased by 34% when compared to the same nine month period in 2022. The Scottish data therefore suggests that, while doubling the additional stamp duty on multiple home owners could boost revenue, it may not achieve the intended decrease in transactions if applied to England and Northern Ireland. For this surcharge to drive down transactions it must be raised further still.
UK ministers’ own stated objectives for introducing the HRAD were to “support home ownership and first-time buyers”. As with the NRSDLT, to make further inroads into the competitive advantage of property speculators and deliver on this objective in England, the HRAD should be increased further, by at least aligning it with the 6% Scottish ADS.

**Figure 7: Doubling or trebling the HRAD will raise more revenue for the Treasury while driving down transactions**

Projected revenue change from HRAD reforms as a function of transaction change, based on expected average 2024/25 price of property incurring the HRAD

![Graph showing revenue change](image)

Source: NEF estimates using HMRC Quarterly SDLT statistics tables (31 October 2023), Table 3b. Zoopla forecasts are used to obtain expected 2024/25 property prices.

If the UK government followed the trajectory in Scotland and doubled the HRAD, tax revenue would be protected until transactions reduced by half. But the early evidence from Scotland does not point to a reduction of this scale. Should the number of transactions remain stable, doubling the HRAD in England would raise an additional £2.2bn in 2024/25, while trebling it would raise an additional £4.3bn.

Raising revenue is welcome, but the primary objective of this policy is to prevent growth of the PRS as a proportion of our homes. Government should therefore consider introducing a

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9% surcharge to curtail property speculation while maximising Treasury returns. As other analysts have argued, and as with the non-resident surcharge, further calibrations may be required to reduce overall multiple homeowner acquisitions, an objective the existing 3% HRAD is yet to achieve.59

**National Insurance**

While NICs is a regressive tax, there is clear scope for improving current arrangements; most landlords currently do not pay NICs on their profits.60 Analysts have rightly suggested that this means taxpayers – including the tenants to whom they let properties – effectively subsidise this exemption for landlords.61 Both the leader of the opposition and the leader of the Liberal Democrats have noted the unfairness that most tenants are subject to mandatory NICs, but most landlords are not.62

Landlords only pay mandatory NICs if they self-define their activities as running a business, meaning all the following conditions apply:

- Being a landlord is that person’s main job;
- That person lets out multiple properties; and
- That person has purchased new properties to let out.63

Clarification to the NICs guidance was provided in April 2015, further reducing landlords’ exposure to mandatory class 2 payments. This effectively added a fourth limb to the three above - that the earnings be ‘relevant’ profits - meaning those from ‘a trade, profession or vocation’. This means that only those who have a specific trade – such as running a hotel or a guest house – are liable to pay mandatory class 2 NICs.64 The Office for Tax Simplification had been critical of the complexity of these arrangements.65

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62 Hansard, Vol 700, Column 157 (7 September 2021) [https://hansard.parliament.uk/commons/2021-09-07/debates/885f7042-e007-4868-8b37-4c254651114/healthandsocialcare#contribution-6449268af6d6-44b9-980d-60ff1fae63e9; https://twitter.com/gmb/status/1511581004439465985](https://hansard.parliament.uk/commons/2021-09-07/debates/885f7042-e007-4868-8b37-4c254651114/healthandsocialcare#contribution-6449268af6d6-44b9-980d-60ff1fae63e9)


Clarifying the rules by removing what is an unjustifiable exemption would simplify the system, allowing the Treasury to close a tax loophole whereby landlords who, to all intents and purposes, conduct their landlordism ‘as a business’, are not required to self-declare as such. All landlords who make a profit from letting out property are running a business, and should therefore be subject to the same tax treatment as other self-employed persons’ businesses.

Imposing standard self-employed NICs on all unincorporated landlords could raise £1 billion in 2024/25.66 Ministers may wish to consider delaying implementing these reforms until a time in which there is greater stability in the PRS. But nonetheless, these reforms would make the property taxation system fairer and simpler, while increasing Treasury revenue.

**Other reforms to explore**

There are a number of other important property tax reforms beyond the scope of this paper the government should consider, such as:

- Deterring empty homes by giving local authorities greater freedom to increase council tax.67
- Discouraging landlords from converting their properties to short-term lets by abolishing the holiday lettings tax regime.68
- Tackling tax evasion by ensuring the property portal, as outlined as part of the Renters (Reform) Bill, mandates landlords to demonstrate submission of tax returns.
- Facilitating a tenure shift from the PRS and towards homes of secure tenure, as well as taxing significant unearned gains in rising property values,69 by reforming CGT. Additional surcharges could be applied to disposals in which one landlord sells the property to another landlord (which do not apply if the property is sold to an owner occupier or social landlord).

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66 NEF analysis of the Survey of Personal Incomes Public Use Tape 2020/21 https://beta.ukdataservice.ac.uk/datacatalogue/series/series?id=2000117
Recommendations and conclusions

We recommend:

1. The stamp duty surcharges incurred by non-resident purchasers and multiple homeowners should be at least doubled, with both monitored and adjusted to dampen speculation and raise additional revenue.
2. The exemption precluding most landlords from mandatory national insurance contributions in relation to property income should be abolished.

As well as delivering better outcomes for our housing system, altogether these reforms could raise between £3.4bn and £5.7bn in 2024/25. This could potentially more than treble government expenditure on social and affordable house building, enough to deliver grant funding for an additional 18,600-31,100 new social homes.