



Inheritance tax change will have huge impact on the market – Roger Jarman

Writing for Inside Housing, HQN associate Roger Jarman warns changes to inheritance tax this month will reinforce inequality and do nothing to encourage better use of stock.

Forget the Housing White Paper.

The government's planning and housing reforms are slow-burning at best. A tax change implemented from 1 April will have much more effect on the housing market than anything emanating from the Department for Communities and Local Government (DCLG).

From that date George Osborne's inheritance tax changes will start to kick in.

By the end of this parliament owner-occupiers will be able to leave their principal home to the value of £1m to their children or grandchildren free of inheritance tax.

At the moment a couple's tax-free allowance on inheritance tax is £650,000. From April the allowance rises by £100,000 to £750,000. Eventually by April 2020 the tax-free element climbs to £1m. Inheritance tax is charged at 40%.

This is bad social and economic policy as it reinforces inequality and reduces the government's tax take at a time of record peacetime debt (£1.7tn and rising). It is estimated that the exchequer will lose £1bn a year from this reform.

And as we know, tax revenues are difficult to find given that income tax, national insurance contributions and VAT will not be increased before the next general election.

The effects on the housing market will be just as profound. This change simply reinforces housing's position as an investment good in Britain's economy.

Older owner-occupiers will cling onto their housing assets as long as possible. Under-occupation will be exacerbated and downsizing will be delayed (although there are provisions for an inheritance tax credit for moving to smaller accommodation that might mitigate this to some extent).

You might even find older owner-occupiers trading up to more expensive housing to maximise tax relief for their heirs – baby boomers occupying yet more space that they do not need. This tax reform makes a mockery of the avowed intention in the White Paper to encourage older owner-occupiers to move to more appropriate accommodation.

Furthermore it does nothing to encourage better use of the housing stock and only serves to worsen the country's housing crisis.

The Treasury and the DCLG need to look at our taxation system and its effect on the UK housing market. Most tax on property is levied on sales through stamp duty.

This is a blunt instrument and effectively is a tax on mobility.

Overall, the limited and skewed tax on residential property encourages ever more investment in the sector (mainly existing stock) and feeds into higher and higher house prices. The inheritance tax change only exacerbates that problem.

<http://www.insidehousing.co.uk/debate/inheritance-tax-change-will-have-huge-impact-on-the-market/7019506.article?adfesuccess=1>

About the author

Roger Jarman has worked in social housing for over 35 years. He has worked as an academic, in local government and for a range of central agencies. In the 1990s he was Head of Housing Management at the Housing Corporation. From 1999 to 2010 Roger worked at the Audit Commission where he was Head of Housing. For much of the last 15 years he has specialised in the regulation and inspection of housing services. He is now an independent housing consultant and trainer.



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