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Home economics

How to put England's broken housing taxes on firmer foundations

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Summary

Taxes on housing have long been filed under 'too politically challenging to fix'. But this situation should not just lead to much hand-wringing by tax specialists; how we tax housing really matters. For starters, it is a cornerstone of the UK tax system: we raise more in property taxes than any other OECD country. And in principle, this is a sensible approach, because there is an opportunity to raise revenue here without distorting economic decisions.

So it is particularly disappointing that our system of housing taxes is a complete mess, both economically and from the point of view of fairness. Council Tax was always regressive by design, and – being absurdly still based on 1991 valuations – has become increasingly so in practice. Indeed, over the past 30 years, the prices of homes have diverged – surging 7.3-fold in Inner London, against a factor of only 4.2 in the North East. Assuming the status quo continues, by 2030-31 the average effective annual tax rate, taking both Stamp Duty and Council Tax together, for a £100,000 home will be almost three-times that for a home worth £1 million.

This ill-structured tax has many perverse effects, including dulling the incentive for people to move out of homes that are larger than they need, which hardly helps with the broader housing crisis. But one consequence should surely render the system intolerable to a new Prime Minister who has vowed to close regional gaps: London wins, while the rest of the country loses. In all other regions, most households are overpaying property taxes. Relative to the value of its housing, London underpaid £3.1 billion of tax in 2024-25. If the rest of England had their homes taxed at a rate as low as that in London, that would amount to a £12.3 billion tax cut for regions outside of London.

This is a system that creates more losers than winners. By 2030-31, and compared to an alternative of property being taxed at a uniform rate everywhere, 61 per cent of households would be overpaying tax by an average of £430 a year, and 36 per cent of households would be underpaying by an average of £680 a year.

Location strongly determines who wins and loses. In the North East, 85 per cent of households lose under the current system, with these households being short-changed by an average of £710 a year by 2030-31. But it is not only a northern problem; in all regions outside of London, over half of households are overpaying. By contrast, four-fifths (80 per cent) of households in London will be underpaying by an extraordinary £950 a year on average.

Failure to reform these terrible taxes does not just widen the gap between England's regions: it disadvantages everyone except those at the very top. Almost two-thirds (63 per cent) of households below the 80th percentile of the income distribution lose out

from the current system. By contrast, over half (56 per cent) of households in the top 5 per cent of the income distribution will be underpaying property tax compared to a proportional system. A tax schedule like this is manifestly unjust.

What would an ideal system look like?

It does not need to be this way. In principle, the aim should be to set taxes proportional to the housing services that families 'consume'. And the most straightforward way to do that is to apply a tax at a single, proportional rate to the entirety of each property's value, akin to the approach proposed by the Mirrlees Review.

The current state of the public finances means it would be imprudent to reduce housing taxes. So, given we already raise large sums by international standards from such taxes, we advocate a revenue-neutral reform, achieved through a proportional tax charged at a rate of 0.7 per cent. This would, like Council Tax, be charged on occupiers, but accompanied by a rebate scheme to protect poorer residents. This new rebate would patch up growing gaps in the existing Council Tax Reduction scheme; but would also protect the interests of the general taxpayer, by ending rebates for cash-strapped households with substantial housing equity in favour of a scheme where the bill is deferred until the property is sold.

Why has no one fixed an obvious mess?

In some sense, defining the ideal system is the easy part. Indeed, tax experts from across the political spectrum have advocated for better property taxes for many years. But we may not get to a better system until we understand why politicians have until now failed to listen.

Council Tax bills are large, conspicuous and paid by the vast majority of families. Reform would relieve the system's many victims, but the flipside would be sharp losses for those who are under-taxed today. Politicians fear that resentment from the losers will be much more powerful than any gratitude from the winners, and the botched history of local tax reform in Britain (witness the Poll Tax) makes them especially wary.

The prospective losers from any rationalisation would, of course, include Londoners in pricey homes and the rich. But many losers would be poorly placed to absorb the extra tax. Even with a means-tested rebate scheme, around a quarter (25 per cent) of households at the very bottom of the income spectrum would be liable to pay at least £250 more in tax each year. Reform is also complicated by the need to redistribute a tax that funds local authorities between regions. All the more reason, then, to look at it alongside other action on fiscal devolution.

The problem in gripping Stamp Duty is different: the obstacle is less about creating losers than surrendering revenue to the 'wrong' winners. For all its flaws, the tax is very easy to collect and falls mostly on those with the broadest shoulders. But simply abolishing it in isolation, as some advocate, would mean a big giveaway to the best-off and established owners, rather than those stretching to take a first step onto the housing ladder. Moreover, it would worsen wealth gaps between the young and old, and leave the overall property tax system even more regressive. For this reason, it is crucial that Council Tax and Stamp Duty reform comes together.

A plausible roadmap to a better system

The big challenge, then, is establishing how to get to a more sensible system. It is important to act both fast and slow. Fast, to prepare the ground and avoid disrupting the housing market, and slow, to build consensus and to phase in large changes.

The first thing reforming politicians need to crack on with is building an up-to-date database of valuations. Launching that can and should be done at the first opportunity, which is – as we write – the upcoming Autumn Budget. Because it is the precondition for almost any sensible reform, this is the top priority. Such a task, however, not a quick job, and will likely take at least two years to complete.

More generally, the sheer scale of the winners, and particularly the losers, involved in our proposed replacement of Council Tax will require careful handling. Any plausible political path through the transition will require cushioning the adjustment of the losers. So a need to ease revenue shortfalls probably means restricting short-term gains of winners too, by imposing gradual adjustment on their bills. For renters, most changes in Council Tax should be countered over time by offsetting changes in rents, allowing at least some of the higher bills to be absorbed without reductions in renters' disposable incomes. To allow time for this adjustment to take place, reforms in the private rented sector should apply at the point that tenants move home, subject to a final deadline (at which point advertised rents will have adjusted and tenants in situ can renegotiate with their landlord).

With Stamp Duty, any reform creates huge sequencing problems. Even temporary tweaks have historically 'gummed up' the market, and the faintest rumour of abolition would distort decisions of would-be movers. A useful first step toward future change might actually be the promise of a degree of immediate stability. Committing, potentially in the 2026 Budget, to freeze rates at current levels for, say, the rest of this Parliament could create a calmer environment for thrashing out durable change over the next. Once buyers and sellers are reassured that nothing is about to change, ministers could spell out a wish to move away from taxing transactions. They could commit – well before any phase-out of the tax began – to ensure that Stamp Duty payments made in the transition would double as credits against future property tax bills. Buyers and sellers could therefore be reassured that they are not pouring money down the drain by pressing ahead instead of waiting.

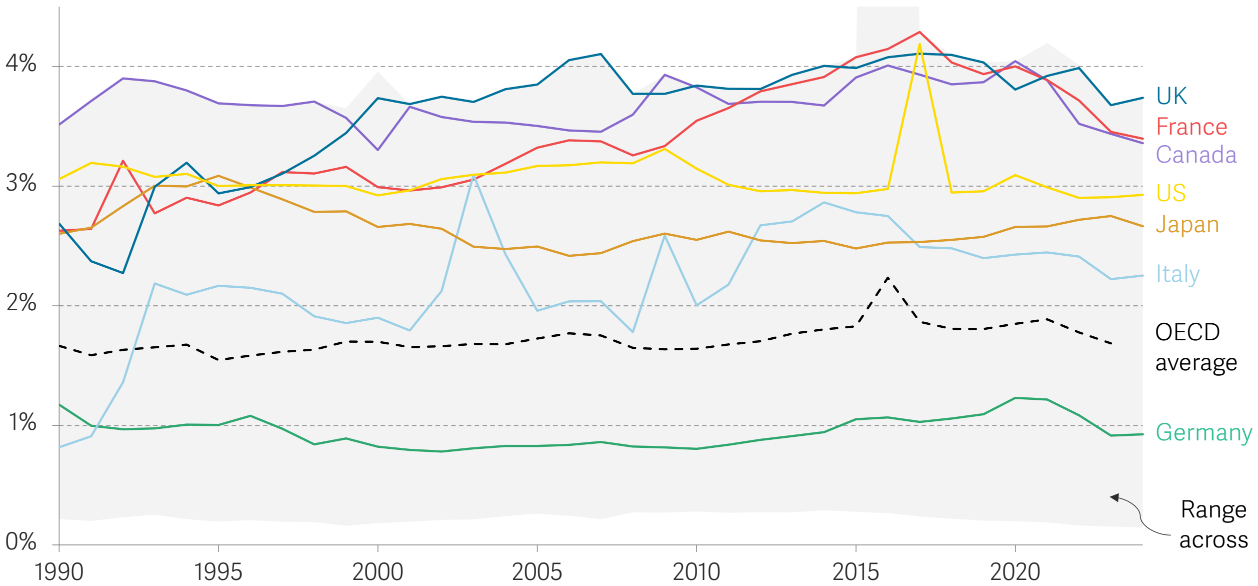
The scale of change is sufficient that building consensus – by, for example, launching a commission on residential property taxes – is also important. Ironically, some guaranteed policy stability around the current broken system may be needed to allow space for the work that is needed to develop a new one. By acting in the near term and simultaneously plotting a course for a better housing tax future, we could – at last – start to escape the trap of terrible taxes on our homes.

We raise significant revenues from residential property through some of our worst taxes

Housing taxes matter. This is not least because, compared to our international peers, the UK raises significant revenues from property taxes. As shown in Figure 1, revenues increased significantly in the run-up to the financial crisis – rising from around 2.5 per cent of national income to over 4 per cent. Although revenues have fallen somewhat since then, the UK now collects more in property taxes as a proportion of GDP than any other OECD country, at 3.7 per cent in 2023 versus the OECD average of 2 per cent.[1] This is not in itself worrying: consumption of housing services makes up a larger proportion of consumption in the UK than almost any other OECD or EU country, at 23 per cent, well above the OECD average of 16 per cent, and taxes on land and property are in principle more efficient than those on work or consumer spending.[2]

FIGURE 1: **The UK raises more through property tax, relative to the size of its economy, than all other OECD countries**

Property tax revenues as a proportion of GDP, by country: OECD



NOTES: Property tax revenues shown are those included in the OECD's category of taxes on property, which covers recurrent and non-recurrent taxes on the use, ownership or transfer of property – including business and commercial property. G7 countries are plotted separately; the swathe shows the range across the OECD. In Iceland in 2016 and the US in 2017 one-off contributions were categorised as property taxes, hence the spikes in those years.
SOURCE: OECD, Global Revenue Statistics Database.

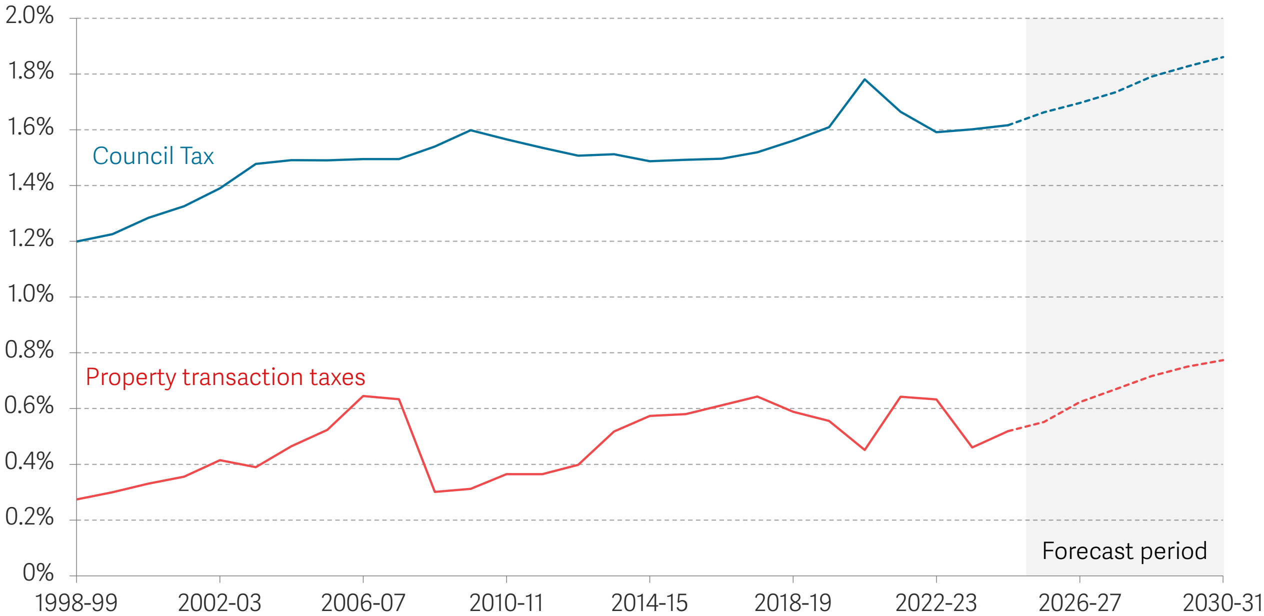
1 Note that some levies on the ownership, transfer or use of property are not reported as property taxes in the OECD's classification, including value-added taxes charged on the first sale of homes. See: R Franzsen, R Bahl & W McCluskey, Property Tax in Europe: A Changing Landscape, Lincoln Institute of Land Policy, June 2026; OECD, Housing Taxation in OECD Countries, OECD Tax Policy Studies No. 29, OECD Publishing, July 2022, https://doi.org/10.1787/03dfe007-en.

2 For the cross-country comparison, see: OECD, Affordable Housing Database – HC1.1. Housing related expenditure of households. Of course, property taxes are not as simple as being a tax on the consumption of housing services. To measure the value of the consumption of housing services, statisticians combine information on actual and imputed rents. For owner occupiers, 'imputed rent' measures how much rent would be paid if owner occupiers were renting their property on the private rental market. This statistical concept is a nebulous one, but the underlying point is not: owner occupiers consume housing services just as renters do. If we did not take account of imputed rent, GDP estimates would vary depending on the level of owner-occupation. Including imputed rent enables clearer cross-country comparisons.

And revenues from the housing component of property taxes are set to increase further. Between 2025-26 and 2030-31 receipts as a proportion of GDP will increase from 1.7 to 1.9 per cent for Council Tax, and from 0.6 to 0.8 per cent for Stamp Duty (see Figure 2). For Council Tax, this reflects the OBR's prediction that local authorities will opt for above-inflation rises in Council Tax bills; for Stamp Duty, it reflects fiscal drag (as thresholds are set in nominal terms) and a forecast increase in the number of transactions.[3] The High Value Council Tax Surcharge is included in the Council Tax figures – but it is not a substantial driver of increases over the forecast period, raising less than £0.5 billion per year.[4]

FIGURE 2: **Revenues from housing taxes are on an upward trajectory**

Council Tax and property transaction taxes as a proportion of GDP: UK



NOTES: Property transaction taxes include residential and commercial Stamp Duty Land Tax (SDLT), devolved property transaction taxes (devolved to Scotland from 2015 and Wales from 2018), and the annual tax on enveloped dwellings paid by some companies that own UK residential property (an element of the SDLT compliance regime). The Council Tax line includes an element of Northern Irish domestic rates and, in the forecast period, the High Value Council Tax Surcharge.
SOURCE: RF analysis of ONS, GDP at market prices; ONS, Public sector finances; OBR, Economic and fiscal outlook, March 2026.

But the design of our housing taxes is poor

Given the scale of tax revenues we raise from property, it is important that we do so in a fair and efficient way. Indeed, as we said above, taxes on land or property are in principle more efficient than those on work or consumer spending. Unfortunately, this is far from being the case for those in the UK right now.

3 The Stamp Duty forecast requires the number of residential property transactions from 2028 remaining consistently above levels not seen since 2011 (with the exceptions of a short period affected by significant forestalling in 2016 and the post-pandemic Stamp Duty-holiday boom). See: OBR, Economic and fiscal outlook, March 2026.

4 OBR, Costing of high value Council Tax surcharge, April 2026.

First, Council Tax is much more regressive than it needs to be. This is partly by design, in that liability is determined by multipliers that ensure that tax bills put a lower burden on more expensive homes than on cheaper ones. But neglect has compounded the unfairness. Household bills and local government tax bases are still based on house price valuations from over 30 years ago, but the rate of house price growth has varied widely in different parts of the country since 1991. As a result, places where prices have risen fastest are taxed on a small fraction of what their homes are now worth; the tax burden as a proportion of the value of the housing stock was almost twice as high in the North East as it was in London in 2024-25 (see Figure 5 later in this briefing note). Moreover, since Council Tax Benefit was localised in England, support has been cut back and bills net of rebates have surged for the poorest households.[5] A Prime Minister focused on inequality between different parts of the country should be focused on reforming Council Tax.

Meanwhile, Stamp Duty is a painful transaction tax. Such taxes are particularly economically harmful as they discourage moves that would be beneficial for both the buyer and the seller, meaning that people and houses are allocated less efficiently.[6] A family that wants only a little more space – an extra bedroom, or a garden – has to buy a whole new property. The tax falls on that property's entire value rather than on the extra housing actually consumed, giving households a strong incentive to stay put. The behavioural responses to transaction taxes can be very large – generating, as we show later, significant inefficiencies across the housing and labour markets.

So, in this briefing note, we look at what an ideal system of residential property tax would look like, but also show why property taxes are so hard to change. We begin by setting out the main flaws with the current system that reforms should seek to address, followed by an outline of what an improved system could look like. We then go on to compare the current system with a fairer one, considering which households are winning and losing from the status quo, and how Stamp Duty holds back growth and reduces welfare. Finally, we turn to the challenges of, and proposals for, transitioning to a proportional system. To be clear, in what follows we focus on England, as property taxes are devolved.[7]

5 Council Tax Reduction is devolved to Scotland and Wales which both run national systems. Council Tax Reduction for pensioner families in England follows a set of nationally determined rules while the scheme for working-age families is locally determined. See: A Clegg, The localisation era: Assessing the post-2013 rise of localised social security, Resolution Foundation, November 2025, https://doi.org/10.63492/ndxb35.

6 J Mirrlees et al., Tax by Design: The Mirrlees Review, Oxford University Press for the Institute for Fiscal Studies, September 2011, Chapter 16: The Taxation of Land and Property.

7 Residential property taxes are devolved in Scotland and Wales, and partially in Northern Ireland. Property transaction taxes have been devolved to both Scotland and Wales since 2015 and 2018, respectively. While Stamp Duty remains in effect in England and Northern Ireland, only a very small share of receipts is raised in Northern Ireland. For 2024-25, the latest year available, £75 million of residential receipts were raised in Northern Ireland, while revenues in England were £10.3 billion. HMRC, Annual Stamp Tax Statistics, December 2025.

Our system of housing taxation short-changes the North

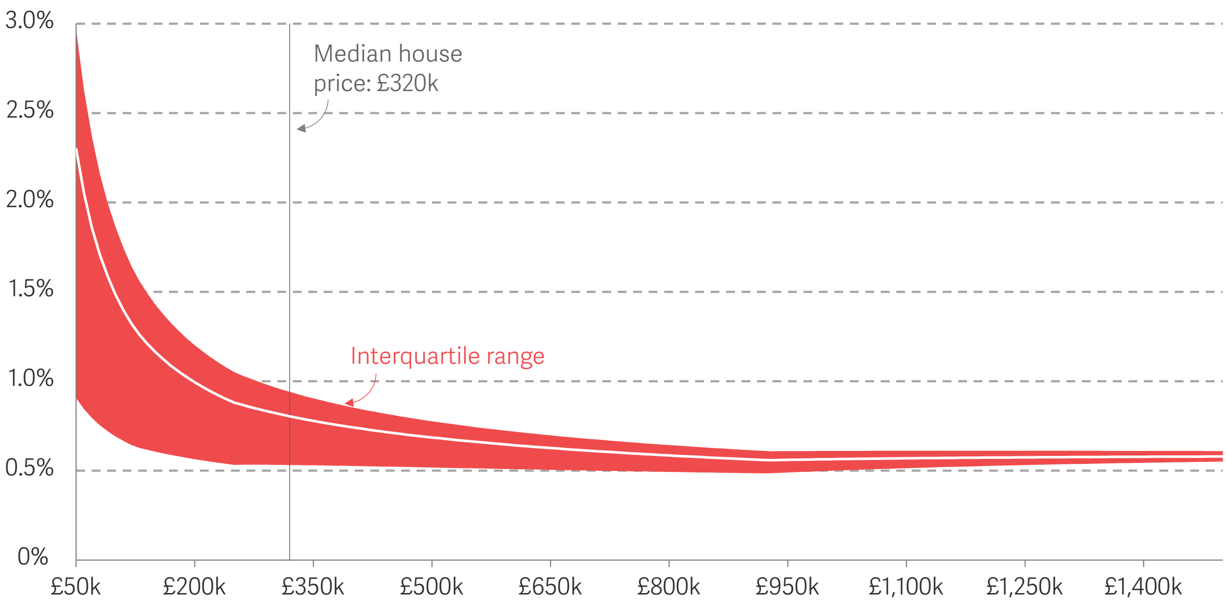
Our current approach to taxing housing is very unfair. This is illustrated by Figure 3, which shows two undesirable features of the current system of Council Tax and Stamp Duty.

First, there is huge variation in the weight of the tax burden, even for properties of the same value. The chart shows the range of effective tax rates paid by the middle 50 per cent of households at each house price.[8] This range is huge; for a property valued at £200,000, this would be from 0.5 to 1.2 per cent (and remember that, by construction, half of properties face effective tax rates outside of this range). In many people's eyes, this scale of variation seems unfair.

Second, if we just focus on the median tax rate, then the effective tax rate on properties falls as the property price rises. By 2030-31, the typical effective annual tax rate on a home worth £100,000 will be 1.5 per cent, but as little as 0.6 per cent for a home worth ten times more.

FIGURE 3: **A combination of poor design and neglect has left residential property taxes a mess**

Median and interquartile range of annual property taxes as a proportion of property values, by property price: England, 2030-31



NOTES: The current system includes Council Tax payments after discounts and rebates, Stamp Duty payments spread over 20 years, and the High Value Council Tax Surcharge.
SOURCE: RF analysis of Land Registry, Price Paid data; MHCLG, 2024 Market Value Survey; DWP, Family Resources Survey, including use of the IPPR tax-benefit model.

8 If all the households living in a property of a particular price were lined up according to their effective tax rate, the middle 50 per cent would span those between the 25th and 75th percentiles, i.e. the interquartile range.

Of course, some of this variation reflects the normal functioning of a devolved tax system, where two neighbouring local authorities with similar property tax bases can set different levels of Council Tax (presumably with different levels of spending). But it also reflects the myriad ways that Council Tax falls short of anything resembling a sensible and proportional system. These include: the single person discount, which is more generous if your house is more valuable; the initial design flaw of multipliers and an open-ended top band, which bakes in the regressivity; the failure to update property values despite divergent trends; and the postcode lottery of Council Tax Reduction. [9] We discuss some of these in more detail below.

When Council Tax was established, a deliberate decision was taken to adopt a compressed rate schedule. The value of the property in 1991 determines the Council Tax band a property sits in and every bill, for every local authority, is a fixed fraction (or multiple) of the Band D bill in that area. These so-called 'multipliers' set the ratio of bills across the different bands and meant that, when Council Tax was established, a property in the top band was worth at least eight times as much as one in the bottom band, while their bill was at most only three times larger.

This original design flaw has since been compounded by the failure to update the value of properties from their 1991 levels. In the 35 years since, there have been large increases in house prices and – importantly – significant regional divergence. As Figure 4 shows, there has been growth in house prices across England, but growth has been much stronger in London than elsewhere. Between January 1995 (the earliest data available for the House Price Index for all regions of England) and June 2026, house prices in Inner London have grown by 7.3 times (even after we account for the fall in property prices in Inner London in recent months). Outside of London, the region experiencing the fastest growth is the East of England with average house prices now 6.0 times higher than in 1995, while the region seeing the slowest growth, the North East, has seen growth of just 4.2 times.

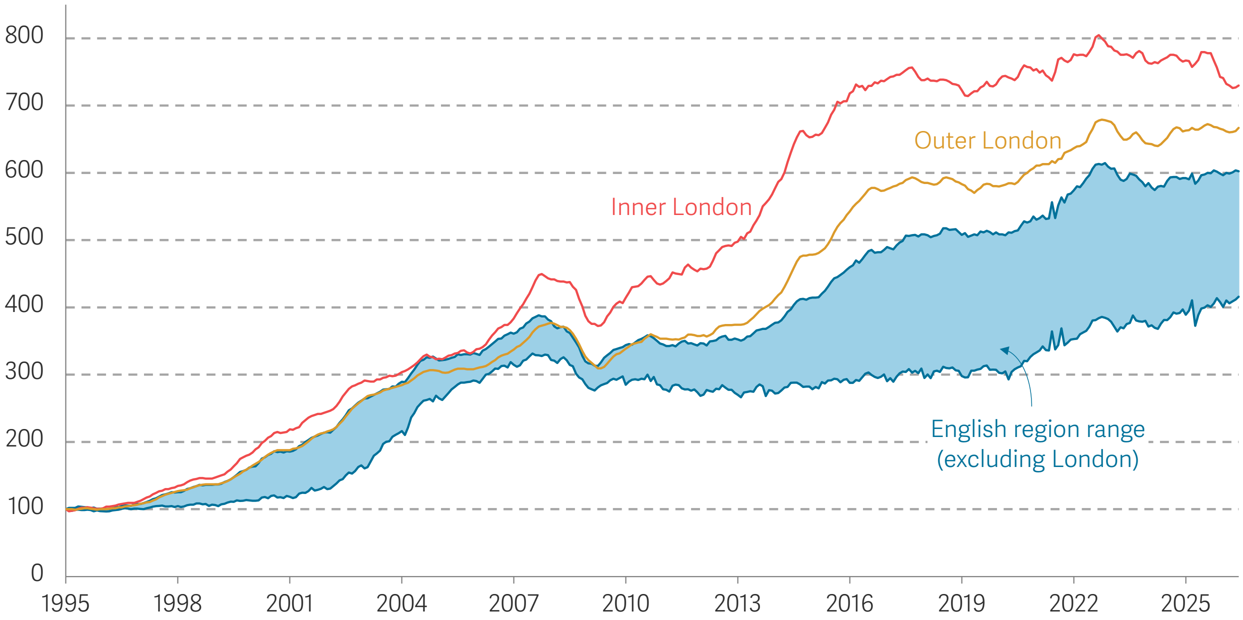
Over that period, there has been no reassessment of the tax base for residential property taxation. The starkly different trends experienced across different areas and regions mean that the current system is not fit for purpose. Now, a property at the bottom of the top band in Richmond-upon-Thames has a price 15 times larger than one at the top of the bottom band in Hull, while their Council Tax bill is only just over double. Alternatively: the resident of Hull is paying over £1,800 more each year than if they faced the same effective tax rate as the resident of Richmond-upon-Thames.[10]

9 On the final point, see: A Clegg, The localisation era: Assessing the post-2013 rise of localised social security, Resolution Foundation, November 2025, https://doi.org/10.63492/ndxb35.

10 These figures are for 2025-26, when both these local authorities charged Council Tax rates close to the national average. This calculation assumes that the value of these properties tracked the regional trend between 1991 and 1995, and the local authority trend since, based on data from Land Registry, UK House Price Index.

FIGURE 4: **Growth in house prices has been large, and varies significantly by region**

House Price Index for regions of England (January 1995=100)

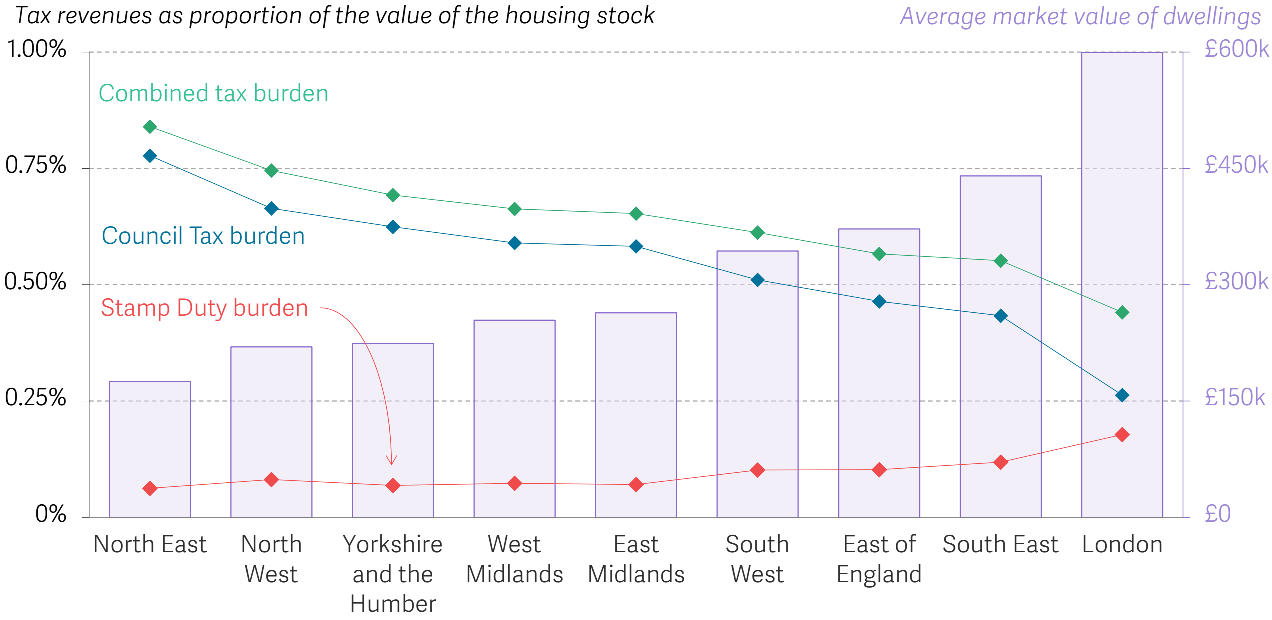


NOTES: The chart begins in January 1995, as this is the earliest date where we have data for every region in England.
SOURCE: RF analysis of Land Registry, House Price Index.

In Figure 5, we compare Council Tax and Stamp Duty paid in 2024-25 with the value of the housing stock in the different regions of England. The imbalance is stark. London is the clear winner from the current settlement: the Council Tax burden relative to the value of housing is much lower than everywhere else. Even once you factor in revenues from Stamp Duty, London is still paying relatively less in property taxes than the rest of England. In the North East, for example, residential property taxes in 2024-25 were equivalent to 0.8 per cent of the value of housing, double that of London, at 0.4 per cent. Compared to a system where the relationship between tax revenues and the value of housing was the same across the country, London paid £3.1 billion too little in residential property tax in 2024-25, with every other region besides the South East and East of England overpaying. If the rest of England had paid taxes as a proportion of the value of their homes at a rate as low as that in London, regions outside of London would have paid £12.3 billion less in tax.

FIGURE 5: **The property tax burden weighs heavier outside of London**

Tax revenues as a proportion of the value of the housing stock (left axis) and the average market value of dwellings (right axis), by region of England: 2024-25



NOTES: The average market value of dwellings and value of the housing stock are from July 2024. Tax revenues are for the financial year 2024-25.
SOURCE: RF analysis of HMRC, Annual Stamp Tax Statistics; MHCLG, Market Value Survey: 2024, April 2026; MHCLG, English Housing Survey 2024 to 2025, December 2025; MHCLG, Council Tax receipts live table.

What would a proportional system look like?

As we discuss in Box 1, the ideal tax system would tax the consumption of housing services. Renters pay rent to live in a house, just as they would pay for any other good or service, and this is the consumption of housing services. Owner occupiers make no such payment, but they are living in a house and are consuming housing services too. Having a tax system that is neutral across all forms of consumption requires us to tax this form of consumption.

BOX 1: **The efficient taxation of residential land and property**

Residential property has two features important for its tax treatment. By living in a house, you consume housing services. By owning a house, you hold an asset. Our focus is on the first of these features.

In general, it is simpler and fairer to have a neutral tax system, i.e. one that treats similar forms of economic activity in a similar way; by introducing fewer distortions, it will also be more efficient. As housing services are a form of consumption, the starting point for considering the appropriate tax treatment is to apply a tax to the consumption of housing services.[11]

In the UK, as in most of the OECD, the main consumption tax is VAT. Unlike many other countries, though, the UK does not charge VAT on new housing. While this is one way we could tax the consumption of housing services, making the transition from where we are to a world with VAT on housing, where tax would be charged on each home once, would be fraught with difficulties.[12] Instead, the obvious solution for England – which already has a system of recurrent residential property taxation – is to apply a tax proportional to the value of housing services consumed. The theoretical ideal might apply this proportional tax to the rental value of each property, with the rate set as for other forms of consumption. But given the preponderance of owner occupation in England, it would be sensible, for the purposes of valuation, as well as public understanding and legitimacy, to base the tax instead on the capital value of the property: a proportional property tax.

What of a land value tax (LVT)? There is a very strong theoretical case for such a tax: land is in fixed supply and its value is not changed by human effort, so taxing it would not disincentivise any activity that we would value. On the other hand, bringing the building into the tax base can disincentivise things we would like to see, such as construction or improvements.

The Mirrlees Review concluded that, given that we would like to tax both land and the combination of land and property together, applying one rate is preferable for practical reasons. As we will come to later, the changes required to move from the current to a proportional system based on the value of property (including land) are large. The tax base for an LVT would be even more geographically concentrated than for a proportional property tax: land makes up a larger share of a property's value where property values are higher, so the changes would be even more extreme and the transition harder.

Whether we tax land or property, is there also a place for a transaction tax applying to all residential property transactions? Ideally not; as the OECD put it, "recurrent taxes on immovable

11 The arguments set out in this box draw on: J Mirrlees et al., Tax by Design: The Mirrlees Review, Oxford University Press for the Institute for Fiscal Studies, September 2011; S Adam, Housing taxation and support for housing costs, Budget Perspectives 2014, Economic and Social Research Institute, June 2013; OECD, Housing Taxation in OECD Countries, OECD Tax Policy Studies No. 29, OECD Publishing, July 2022, https://doi.org/10.1787/03dfe007-en; M Broome, A Corlett & G Thwaites, Tax planning: How to match higher taxes with better taxes, Resolution Foundation, June 2023.

12 Given the UK does not currently charge VAT on new homes, implementing such a system would generate major challenges. To begin, it would be applied to new homes, but that would leave the future housing consumption of existing homes untaxed. Attempts to tax the existing stock, by applying VAT on the next sale, would lead to problematic lock-in effects.

property are considered one of the most economically efficient forms of taxation".[13] Any transaction tax should generally be avoided: assets should be in the hands of those who value them most and, by imposing such taxes, we discourage mutually beneficial transactions. Imposing a higher tax burden on properties which are bought and sold more often also inhibits dynamism, something the UK economy is sorely lacking.[14]

If we were to replace Council Tax and the main rates of Stamp Duty with a recurrent proportional property tax in England, that would be replacing two unfair and distortionary taxes with one that is both fairer and more efficient.

As outlined in Box 1, a much fairer, simpler and more efficient property tax system would scrap both Council Tax and Stamp Duty and replace them with a flat-rate proportional property tax. This could be paid by the occupant and charged as a percentage of the property value.[15] Such a tax should be accompanied by a targeted system of support to reduce the tax liabilities of those unable to afford them; our proposed approach is discussed in Box 2.

BOX 2: **A proportional property tax should come with a targeted support scheme**

The support scheme we propose for a reformed system is based on Council Tax Benefit, which operated across Great Britain until it was devolved and localised in April 2013. This is a stronger starting point than the current system of local support with Council Tax payments in England, which fails to deliver fairness, efficiency or consistency.[16]

But our proposed system deviates from Council Tax Benefit in one key way: it also considers home equity when applying the means test. It is true that there will be owner occupiers who cannot afford to pay the property tax out of current income, but some may have the resources to do so from their housing wealth. In such cases, rather than offer a rebate (as could be the case for Council Tax at the moment), we

13 OECD, Housing Taxation in OECD Countries, OECD Tax Policy Studies No. 29, OECD Publishing, July 2022, https://doi.org/10.1787/03dfe007-en.
14 R Davies, N Hamdan & G Thwaites, Ready for change: How and why to make the UK economy more dynamic, Resolution Foundation, September 2023.
15 The legal obligation to pay a property tax could fall on either the owner or the occupier, the difference being irrelevant for those who own their own home (see Box 3). We propose retaining the current 'occupier pays' approach used for Council Tax to minimise both the transitional difficulties of shifting the formal incidence of a tax from tenants to landlords and to avoid the risk of higher levels of non-compliance if the tax were charged to owners.
16 A Clegg, The localisation era: Assessing the post-2013 rise of localised social security, Resolution Foundation, November 2025, https://doi.org/10.63492/ndxb35.

envision a deferral scheme that allows owner occupiers to not pay the tax from their current income, but instead in a lump sum at the point of sale.

To prevent a homeowner eroding all of their equity if they remain in situ in the long term, we propose that those with equity below 35 per cent of their property value receive the rebate. Only those with more equity would be denied the rebate and offered deferral (this threshold ensures that they could defer their property tax payments for 50 years without falling into negative equity).[17]

So, what level should that proportional property tax be set at? Given the current fiscal challenges, there is no scope to reduce revenues from the taxation of housing. On the other hand, the UK already raises significant sums by international standards. We advocate a revenue-neutral reform, not just as a helpful thought experiment, but as the right approach for this area.

But the exact year chosen for revenue neutrality makes a difference. That is because, over the forecast period, the revenue raised from Council Tax and Stamp Duty is set to increase significantly. By 2030-31, England is set to raise £59 billion through Council Tax net of discounts and rebates (and including the High Value Council Tax Surcharge) and a further £15 billion through the main rate of residential Stamp Duty, so any reform would need to generate a total of £74 billion in revenue.[18]

We estimate that a proportional property tax rate of 0.66 per cent would be approximately revenue neutral, with a slightly higher rate needed to cover the lost revenue from means-tested rebates.[19] Alongside surcharges on dwellings that are not someone's main home raising at least £3 billion,[20] we estimate that a property tax rate of 0.7 per cent would be

17 This approach does create a cliff-edge which incentivises lower-income mortgagors receiving a rebate not to pay off their mortgage principal to avoid reaching 35 per cent equity at which point their property tax liability would be deferred instead of rebated. In practice, this incentive would seldom apply. Mortgagors with less than 35 per cent equity will be relatively early in their mortgage period and lenders would have assessed that they could afford their full mortgage payments based on a stress test that would include property taxes. Any households close to the equity threshold who receive a rebate would likely be experiencing a temporary drop in their income and the cliff-edge would be removed once their income recovered and they no longer received a rebate.

18 To estimate the tax revenue for England only in 2030-31, we calculate the proportion of Council Tax and main rate Stamp Duty receipts in England in 2024-25 captured in the OBR's UK-wide Economic and Fiscal Outlook for the same period. This proportion is then applied to the OBR's forecast UK-wide Council Tax and main rate Stamp Duty revenue in 2030-31 to derive the value of future receipts coming from England. Sources: OBR, Economic and fiscal outlook, March 2026; MHCLG, Collection rates for Council Tax and non-domestic rates in England 2024 to 2025, July 2025; HMRC, Annual Stamp Tax Statistics 2024 to 2025, December 2025.

19 We estimate the total value of the housing stock in England in 2030-31 will be £10.9 trillion, after allowing for valuation changes caused by there being a reformed property tax system. Here we uprate the average property value from MHCLG's Market Value Survey 2024 and the number of dwellings in the MHCLG's English Housing Survey 2024-25 to the financial year 2030-31 using the OBR's Economic and Fiscal Outlook from March 2026. We then apply a further adjustment based on the capitalisation effects of property tax reforms (see Annex 2).

20 In this briefing note, we show the implications of changing the way we tax main homes, but there are strong arguments to apply additional surcharges on second homes and empty properties, to encourage more efficient use of our finite housing stock. The Fairer Share campaign produced an estimate of the additional revenues from surcharges on empty and second homes, raising £2.4 billion in 2019-20, see: A Dixon et al., The Proportional Property Tax Manifesto, Fairer Share, October 2021, and a more recent estimate of £4.5 billion for foreign-owned, empty and second homes, see: A Dixon et al., Foreign Homeownership Surcharge, Fairer Share, January 2022. There would also be additional Stamp Duty revenues from increases in purchases of additional dwellings and non-UK resident buyers.

revenue neutral in 2030-31 after rebates (here we ignore deferrals, as that revenue would be delayed rather than forgone).[21]

A flat rate proportional property tax would be a much fairer and simpler system than the one we have now. It would also mean that, in the longer term, with better residential property taxes in place, politicians will be able to alter rates to shift the balance of where and how tax is raised across the wider tax system: a key benefit of tax reform is that the menu of choices will have improved.

In the next sections, we will compare the current system to the much fairer proportional system described, in order to see who is winning and losing from the current settlement.

Most households are paying property taxes that are too high

In the section above, we considered the variation in the tax burden between regions, but how do households within each of those regions fare? To analyse this, we compare tax liabilities under our proposed proportional property tax with the current policies of Council Tax, the High Value Council Tax Surcharge and Stamp Duty.

Before presenting this analysis, we need to be explicit about two important assumptions we have made to make this comparison. First, when we move from analysis at the regional level to the level of the household, we need to estimate how much Stamp Duty is paid by individual households; we do this by calculating the amount that would be charged on each owner-occupied home and dividing this by 20 to come up with an annualised figure (that is, we assume a turnover rate of 5 per cent, or, equivalently, a holding period of 20 years).[22] Second, we have assumed that private tenants are relatively unaffected by the level of recurrent property taxes: we assume that 90 per cent of any change from the current system to a proportional property tax is, in the long run, incident on the landlord (see Box 3).

21 Given the number of assumptions required to estimate what tax rate would be revenue-neutral there is inherent uncertainty in this 0.7 per cent figure. But there is a degree of consensus among commentators that a cost-neutral tax rate would fall between 0.6 per cent and 0.7 per cent of a property's value. Our rate sits at the top of that range because we have a lower estimate of the value of the housing stock (which is anchored by MHCLG's Market Value Survey) and we target revenue neutrality at the end of the forecast period when revenues from Council Tax and Stamp Duty will be much higher. A proposal from the Prosperity 2030 programme suggests a similar reform, but has a proposed rate of 1.0 per cent, partly because social housing is exempt, and partly so as to raise additional revenue to spend on public service. See: M Dent, Property Tax Lab; B Ansell, Taxing times: Policies, politics, and principles, IPPR, August 2026; A Percy, Prosperity 2030, UCL Institute for Global Prosperity, July 2026.

22 The OBR's Economic and Fiscal Outlook, March 2026 forecasts a turnover rate of 4.1 per cent. Assuming that the stock of social housing does not turn over, the rate for private dwellings would be 5.0 per cent.

BOX 3: How do changes in tax impact the private rented sector?

Economic theory and empirical evidence suggest that those with the legal obligation to pay a tax will not necessarily be the same as those who – ultimately – bear the burden of the tax; the legal incidence does not determine the economic incidence.

In the case of recurrent property taxes, especially in competitive rental markets, we expect some or all of a change in the taxation of housing to fall on the landlord even if the tenant is responsible for paying the tax bill. The mechanism is as follows: if the tax bill on properties in (say) Newcastle were to fall substantially, then more people should want to live in Newcastle. If the supply of properties in Newcastle did not change much, then tenants might find that the cut in property taxes was offset by higher rents. In the extreme case where the supply of properties did not change at all, theory suggests that the overall cost of living in Newcastle (i.e. rents plus property tax) would remain the same. This is the mechanism whereby taxes that tenants pay to the government can ultimately affect the rent levels that landlords can command.[23] In our analysis we have assumed that 90 per cent of the change in the recurrent tax applied to a property is incident on the landlord and 10 per cent on the tenant.[24]

What does this mean in practice? The assumption that rents largely adjust for any changes in property taxes means that, for most private tenants, the nature of the property tax system comes out in the wash, as only a small portion of any change to it would be evident in their income after tax and rent. But there would still be some winners and losers from moving to our proposed proportional property tax. The losers include private renters currently benefiting from the single person discount in Council Tax (which we suggest be abolished), and the winners would include lower-income working-age households currently unable to access Council Tax Reduction on the same terms as pensioners (which would not be the case in our model of a proportional

23 How a change in the taxation of housing affects landlords and tenants depends on the responsiveness of both the supply of and demand for rental housing, and the balance between the two. Full incidence on landlords would occur if supply is fixed and renters have no alternatives. If renters have options to respond – such as moving area or trading down – landlords cannot increase the rent by the full amount of the tax, and therefore part of the impact of the change falls on the renter.

24 Empirical estimates of pass-through vary considerably across the literature, from close to zero to over 100 per cent, reflecting differences in market context, time horizon, and supply elasticity. Given the UK's supply-constrained housing, we have chosen to model a level of pass-through towards the top end of this range. But some private tenants directly benefit from specific discounts and rebates. As these are based on the individual households' circumstances, we assume that they are fully incident on tenants. Source: R England, Tax incidence and rental housing: a survey and critique of research, National Tax Journal 69 (2), June 2016, https://doi.org/10.17310/ntj.2016.2.07; W Oates & W Fischel, Are local property taxes regressive, progressive, or what?, National Tax Journal 69 (2), June 2016, https://doi.org/10.1086/NTJ44014529; S Adam et al., Revaluation and reform: bringing Council Tax in England into the 21st century, Institute for Fiscal Studies, March 2020, https://doi.org/10.1920/re.ifs.2020.0168.

system). As for landlords, the losers of a proportional property tax system are those let properties where recurrent taxes increase and the winners let properties where recurrent taxes decrease.

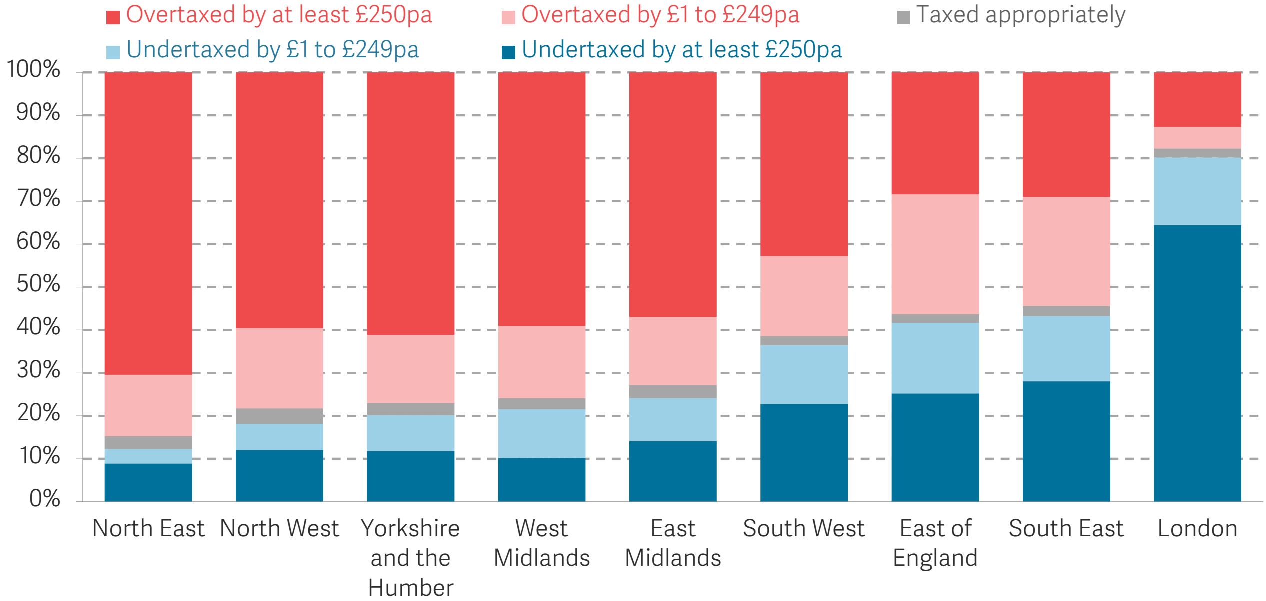
We begin by showing (in Figure 6) the proportion of households in each region that, in 2030-31, would be winning or losing from the current system of residential property taxation compared to a fairer reformed one. There are several points to make.

First, very few households would pay the same amount of property tax under the current system as under a fairer reformed one – just 3 per cent across England as a whole. This reflects that, as we showed in Figure 3, current property taxes bear no resemblance to the value of the property itself (indeed, those paying the same amount of tax under either system are likely to be lower-income households entitled to a full rebate on Council Tax or a proportional property tax).

Second, households are much more likely to be overpaying tax (61 per cent) under the current system than they are to be underpaying it (36 per cent) compared to what they would pay under a proportional system. For those in the smaller group who are benefiting from the status quo, the average gains from the current system (£680 a year) are much larger than the average losses (£430 a year) among the bigger group who are losing out.

FIGURE 6: **Winners from the current system are concentrated in London, while the rest of the country is more likely to be losing than winning**

Proportion of households winning and losing from current property tax system compared to a proportional one, by region: England, 2030-31



NOTES: The chart compares taxes paid by occupant households under two different tax regimes assuming that property taxes in the private rented sector are mostly incident on the landlord. It looks at households and the homes they occupy; it does not include the owners of rented properties. We estimate the annual cost of Stamp Duty by calculating the amount of Stamp Duty that would be charged on each owner-occupied home if they were to sell in 2030-31 divided by 20 (equivalent to a private dwelling turnover rate of 5 per cent).
SOURCE: RF analysis of Land Registry, Price Paid data; MHCLG, 2024 Market Value Survey; DWP, Family Resources Survey, including use of the IPPR tax-benefit model.

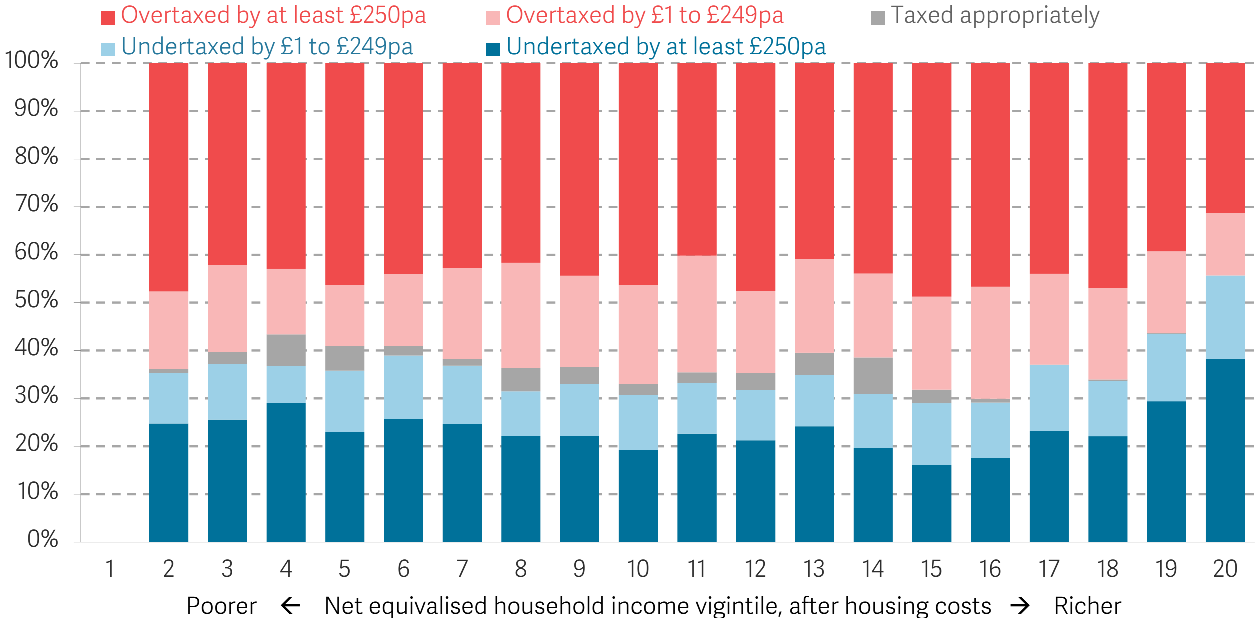
Third, there is a large regional difference in the split between the share of winners and losers. At one extreme is the North East: by 2030-31, the vast majority (85 per cent) of households in the North East will be overpaying property tax, with the average overpayment at £710. At the other extreme, London overwhelmingly benefits from the status quo. Four-fifths (80 per cent) of households would be winning from the current system in 2030-31, with households underpaying tax by an average of £950. But as Figure 6 makes plain, the geographical story is really one where London is the beneficiary of our current system at the expense of the other regions: outside of London, just over two-thirds (68 per cent) of households would be overpaying property taxes in 2030-31.

The highest income households, and single-adult households, are most likely to be underpaying in the current system

Figure 7 shows the split of winners and losers from the current system across the income distribution. It clearly shows that those at the very top of the income distribution are most likely to be winning from the current system. We estimate that, in 2030-31, over half (56 per cent) of households in the top 5 per cent of the income distribution will be underpaying property tax compared to a proportional system. Among the poorest 80 per cent of households, 63 per cent will be losing from the current system.

FIGURE 7: **Winners from the current system are often – but by no means always – better off**

Proportion of households winning and losing from current property tax system compared to a proportional one, by income vigintile: England, 2030-31



NOTES: The chart compares taxes paid by occupant households under two different tax regimes assuming that property taxes in the private rented sector are mostly incident on the landlord. It looks at households and the homes they occupy; it does not include the owners of rented properties. We estimate the annual cost of Stamp Duty by calculating the amount of Stamp Duty that would be charged on each owner-occupied home if they were to sell in 2030-31 divided by 20 (equivalent to a private dwelling turnover rate of 5 per cent). The bottom 5 per cent are excluded due to concerns about the reliability of data for this group
SOURCE: RF analysis of Land Registry, Price Paid data; MHCLG, 2024 Market Value Survey; DWP, Family Resources Survey, including use of the IPPR tax-benefit model.

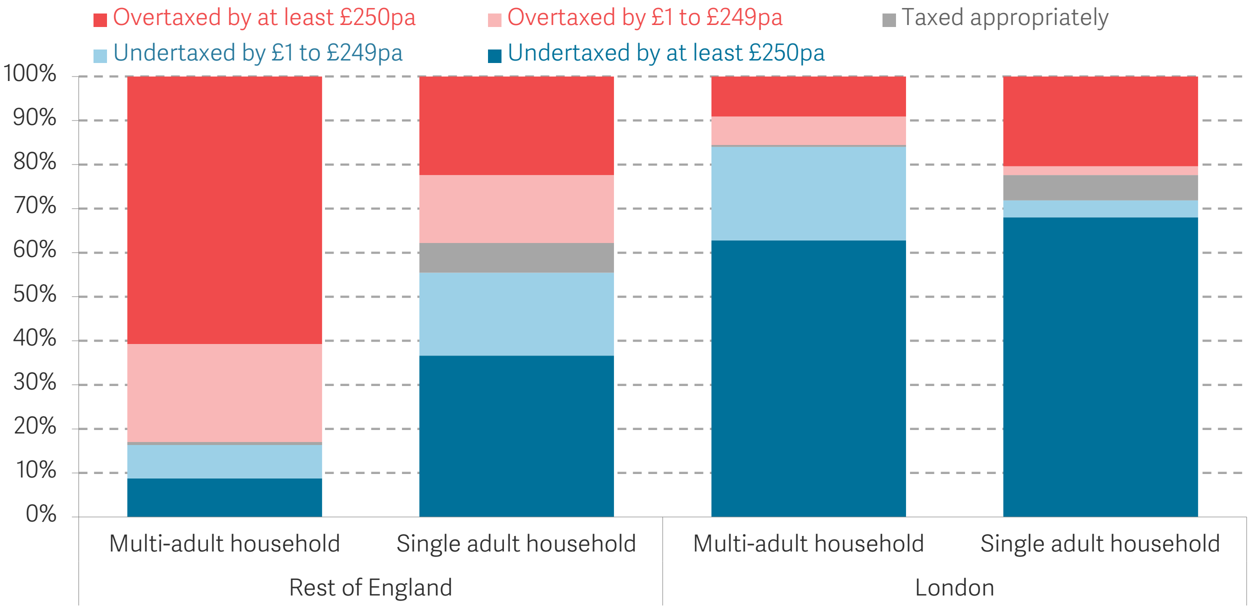
But the more important fact shown in Figure 7, and one that is very relevant when we come on to discuss implementation, is that both winners and losers are spread right across the income distribution. In the second vigintile for example, almost half (48 per cent) of households will be overpaying tax by at least £250 a year in 2030-31, while a quarter (25 per cent) will be underpaying by an equivalent amount. The results reflect that the key driver of whether a household is a relative winner from the current system is the regional divergence in property price growth: the failure to revalue properties for Council Tax in England has benefited households in London, wherever they happen to sit on the income distribution, to the disadvantage of households elsewhere.

Beyond the regional picture, there is another group who gain from the status quo: single-adult households. Currently, they benefit from a 25 per cent discount to their Council Tax bill, regardless of the size and value of the property that they live in. This discount encourages inefficient use of the housing stock: single-adult households are incentivised to live in properties bigger than they otherwise would (and therefore multi-adult households are pushed towards smaller ones). In a country with restricted housing supply, having a tax discount that encourages such under-occupation is exactly the wrong approach, and a fairer, proportional system would not have this feature.

Figure 8 explores how this discount interacts with the regional advantage. It shows that households with more than one adult outside of London are the major losers from the current settlement, with 61 per cent of households on course to overpay property tax by at least £250 in 2030-31. Among single-adult households living outside of London, most (55 per cent) gain but a large minority (38 per cent) lose from the current system in 2030-31 despite the single person discount. Single-adult households in London are benefiting both from a 25 per cent discount on a property tax bill that is already lower. So, it is little surprise that over two-thirds of these households (68 per cent) will underpay tax by at least £250 in 2030-31. That said, a fifth (20 per cent) of single-adult households in London will overpay property tax compared to a proportional system despite being doubly advantaged, reflecting the absence of a comprehensive rebate scheme. Part of this will reflect the weaknesses of the current Council Tax Reduction: a typical single parent family, for example, may be able to get a 25 per cent discount on their Council Tax, but even if they had no earnings of their own, they would have to pay at least some of the remainder. In comparison, our proposed proportional system would not offer a blanket 25 per cent discount but would offer a full rebate to those unable to pay.

FIGURE 8: **Multi-adult households outside of London are losing out from the current system**

Proportion of households winning and losing from current property tax system compared to a proportional one, by number of adults in the household and area: England, 2030-31



NOTES: The chart compares taxes paid by occupant households under two different tax regimes assuming that property taxes in the private rented sector are mostly incident on the landlord. It looks at households and the homes they occupy; it does not include the owners of rented properties.. We estimate the annual cost of Stamp Duty by calculating the amount of Stamp Duty that would be charged on each owner-occupied home if they were to sell in 2030-31 divided by 20 (equivalent to a private dwelling turnover rate of 5 per cent).
SOURCE: RF analysis of Land Registry, Price Paid data; MHCLG, 2024 Market Value Survey; DWP, Family Resources Survey, including use of the IPPR tax-benefit model.

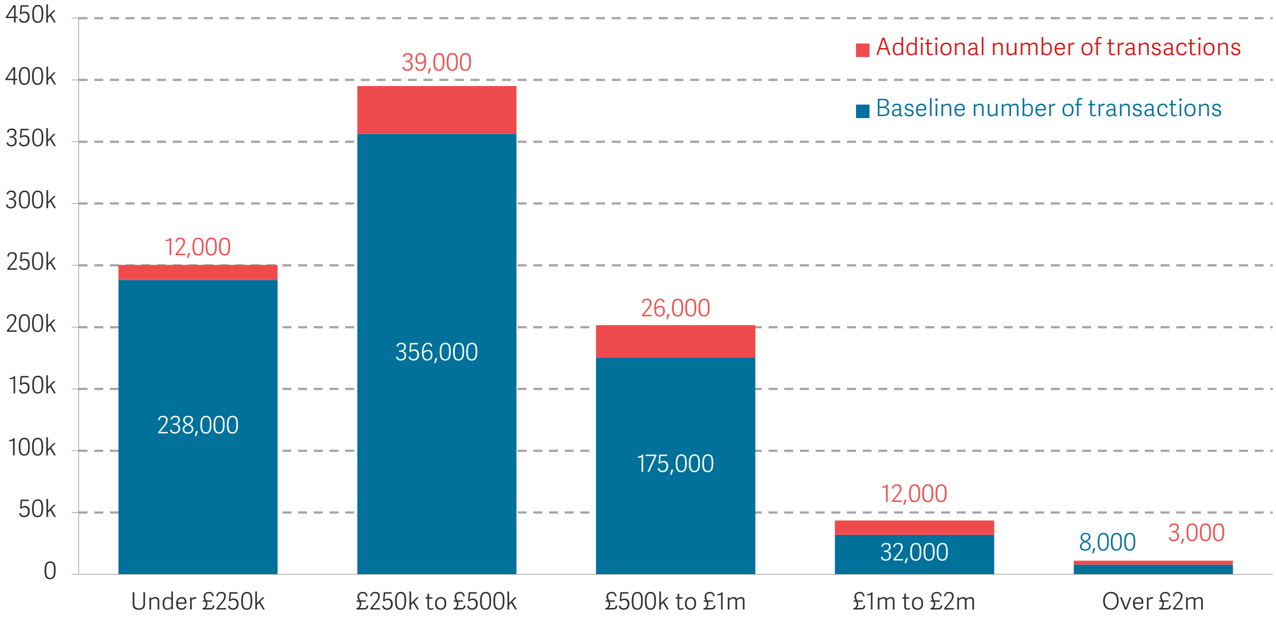
Overall, almost all households would be affected if a proportional property tax were introduced, with 68 per cent experiencing a change in tax liability of at least £250 a year in either direction. Households are much more likely to be overtaxed – 61 per cent of households – than undertaxed – just 36 per cent – compared with a proportional system. The key reason for this is that house prices in London have raced away from the rest of England, while the valuations determining property taxes have been left untouched. The losers from the current system are households with at least two adults and those in the North and Midlands, while the winners are overwhelmingly those living in London, with single-adult households and those at the very top of the income distribution more likely to be benefiting.

There are significant gains to scrapping Stamp Duty, but done in isolation this would lead to large gains for the wealthy

Stamp Duty throws sand in the gears of the housing market, disincentivising mutually beneficial transactions. In Figure 9, we show our estimate of the number of housing transactions liable for Stamp Duty in 2030-31 (that is broadly consistent with the latest official receipts forecast) – around 800,000 – and the increase we would expect after abolishing the main rate of residential Stamp Duty.[25] In 2030-31, we estimate there would be an additional 92,000 house moves, an 11 per cent increase in the number of liable transactions, although the scale of this response is difficult to predict. There are fewer houses in the top price bands, but the progressive rate schedule means tax rates are currently higher on more expensive houses, and so the relative increase in the number of transactions is largest at the top of the market.

FIGURE 9: **Abolishing Stamp Duty would boost the number of transactions, especially at the top end of the market**

Estimated number of housing transactions, in baseline forecast and after abolishing main rate of residential Stamp Duty, by house price band: England and Northern Ireland, 2030-31



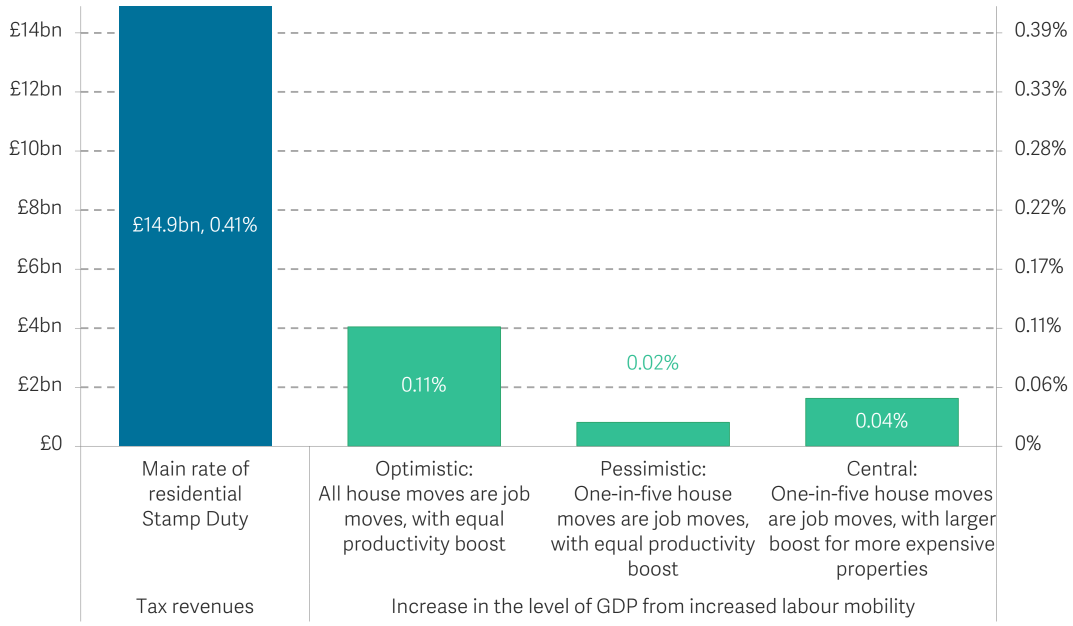
NOTES: We estimate the number of liable transactions and average tax rates using HMRC's Annual Stamp Tax Statistics, making adjustments where historic tax rates differed from current policy. These estimates are grown in line with the OBR's March 2026 forecast to generate an estimate of the baseline number of housing transactions liable for Stamp Duty that is broadly consistent with the latest official forecast. We apply the transaction semi-elasticities published by the OBR in October 2017 to estimate the additional number of transactions. The percentage point fall in the tax rate from abolishing the main rate of Stamp Duty is multiplied by the semi-elasticity to give the percentage increase in the number of transactions.
SOURCE: RF analysis of HMRC, Annual Stamp Tax Statistics; OBR, Residential SDLT elasticities, October 2017; OBR, Economic and fiscal outlook, March 2026.

25 Our estimates are based on the OBR's estimates of the price and transaction elasticities for Stamp Duty, OBR, Residential SDLT elasticities, October 2017. These estimates are highly uncertain, especially for large tax changes such as the abolition of the main rate. In our modelling, we use these elasticities to estimate the impact of changes to the Stamp Duty regime, as we view these as consistent with the available evidence. However, other research estimates larger behavioural responses; see, for example: C Hilber & T Lyytikäinen, Transfer taxes and household mobility: Distortion on the housing or labour market?, Journal of Urban Economics 101, September 2017, https://doi.org/10.1016/j.jue.2017.06.002.

One type of prospective mover we might be particularly concerned about is someone who decides not to move to a better-paying job because of Stamp Duty. So, in Figure 10, we estimate the scale of the economy-wide impact of this (with the details of our approach covered in Box 4). We estimate that, after 10 years of additional moves, the increase in the level of annual GDP would be 0.04 per cent from increased labour mobility (based on data for 2030-31). A modest gain, but one well worth having.

FIGURE 10: **Increased labour mobility would be just one benefit from abolishing Stamp Duty**

Tax revenues and economic impact of increased labour mobility from the abolition of the main rate of residential Stamp Duty, in £ billion (left axis) and as a proportion of GDP (right axis): UK



NOTES: The optimistic case assumes that all house moves are job moves, and the pay boost per job is equal to that of an average job and region move at typical wages. The pessimistic case assumes the same pay boost, but that only one-in-five house moves are job moves, based on the proportion of moves which are long-distance. The central case assumes that one-in-five moves are productivity enhancing, but that the pay boost increases in line with house prices. We scale these figures to get the economy-wide benefits, based on the labour share. These are used to produce estimates of the increase in the level of GDP. The GDP figures are for the UK in 2030-31. The gains reflect the increase in the level of annual GDP from ten years of additional moves, but expressed in 2030-31 prices.
SOURCE: RF analysis of HMRC, Annual Stamp Tax Statistics; OBR, Residential SDLT elasticities, October 2017; OBR, Economic and fiscal outlook, March 2026; ONS, ASHE; RF, Changing jobs; and ONS, Labour share of income.

This estimate is, of course, highly sensitive to the assumptions made. If people's decisions about whether to move were more responsive to the tax change, or more of the house moves were linked to productivity-enhancing job moves, then greater labour mobility would increase the economic benefits. Furthermore, the boost from each job move could be higher if the pattern of moves leads to positive agglomeration effects in specific locations, or if movers not only see a one-off jump in their wages but are put on a new track where their productivity (and therefore wages) increases at a faster rate as a result of the move.

BOX 4: The increase in the level of GDP from increased labour mobility

If extra house moves mean there are also more job moves, then this increase in labour mobility should lead to productivity increases and a boost to the level of GDP. We have three scenarios:

- our optimistic case assumes that all additional house moves lead to job moves, with those moving jobs receiving a boost to pay equal to the average when moving job and region for someone on typical wages;
- assuming only one-in-five additional house moves lead to productivity-enhancing job moves, but the pay premium for each move remains the same, generates our pessimistic case (this takes the proportion of moves which are long-distance as a proxy for those that are productivity enhancing[26]); and,
- our central case assumes that while only one-in-five house moves lead to job moves, the scale of the boost to pay and productivity is larger for those in more expensive houses, reflecting higher wages.

The productivity increase per job move is based on the pay premium from moving job and region estimated in previous Resolution Foundation work.[27] We apply this 5.8 per cent pay premium for moving job and region to typical wages for both our optimistic and pessimistic cases, showing the impact if all job movers received the average pay increase at typical wages. For the central case, we increase the boost to pay based on the house price, because those moving into more expensive homes are likely to command higher wages.

The pay premium captures the boost to wages, which is one element of the increase in output we would expect. We scale up our estimate based on the economy-wide figures for the labour share of income, which is around 58

26 We consider that long-distance moves, which would mean a job move between labour market areas, would be most likely to be productivity enhancing. We therefore use the share of moves which are long distance as a proxy for those that are productivity enhancing. The estimate of the share of moves which are long distance is based on a range of evidence, such as L Cook, Home movers in England: how far do they go to their new homes?, Savills, August 2020; Department for Levelling Up, Housing and Communities, English Housing Survey 2021 to 2022: household moves, July 2023. Analysis of the UK's 2014 reforms to Stamp Duty found that Stamp Duty did not adversely affect job-induced or long-distance mobility, but more recent evidence from Finland finds that long-distance moves are affected, see: C Hilber & T Lyytikäinen, Transfer taxes and household mobility: Distortion on the housing or labour market?, Journal of Urban Economics 101, September 2017, https://doi.org/10.1016/j.jue.2017.06.002; E Eerola et al., Revisiting the effects of housing transfer taxes, Journal of Urban Economics 124, July 2021, https://doi.org/10.1016/j.jue.2021.103367.

27 N Cominetti et al., Changing jobs?: Change in the UK labour market and the role of worker mobility, The Economy 2030 Inquiry, January 2022.

per cent.[28] This scaling up captures the economy-wide impact from higher-productivity employment and gives our estimate of the total increase in the level of GDP.

This generates an estimate of the annual boost to the level of GDP; that is the increase in one year from the additional moves we would expect in one year. We multiply this figure by 10 to give a figure for the likely long-term impact of the reform: the boost to the level of GDP in one year from 10 years' worth of additional moves.[29]

The deadweight loss from Stamp Duty is even larger

The person who decides not to move house and misses out on a better job opportunity is just one example of a wider phenomenon: the misallocation of housing. Think of a family looking for a larger house with good commuting links, and an elderly couple looking for a smaller, quieter spot on the edge of town. Stamp Duty means that the price paid by the buyer is higher than the payment received by the seller, and some of these mutually beneficial transactions do not occur. Some of these will prevent productive job moves, but others will mean that people live in houses that are less well-suited to their needs and wants than they could be. Both are important.

Furthermore, by reducing the number of transactions, a transaction tax can reduce the quality of those that do still occur. Because of Stamp Duty, at any given time, there will be fewer people looking to transact. Search models of the housing market imply that a thinner market means that those trades that do happen result in lower quality matches.[30] There is also evidence that property transaction taxes distort decisions as to whether to own or rent, by reducing the mobility of homeowners and increasing the demand for rental properties.[31]

So abolishing Stamp Duty would not only give a boost to GDP from increased labour mobility, but would also have other benefits to households not captured in GDP statistics. Economists measure this in something called 'the deadweight loss', or 'excess burden', of a tax: a measure of the total harm a tax imposes (above and beyond the cost to the taxpayer of making the payment itself). In Figure 11 we plot estimates of the

28 The additional wages are a measure of the additional output accruing to labour, and the corresponding increase in the total output is that figure divided by the labour share. This approach assumes that the shares for the marginal job mover are the same as the economy as a whole. The labour share is taken from ONS, Labour share of income, August 2026.

29 Our estimate focuses on the increase in the level of GDP from increased labour mobility. There is evidence that, historically, trends in housing turnover and construction of new builds have been correlated: P Eve & E Williams, Market Demand Insights: England's Housing Challenge, Savills, May 2025. This does not necessarily imply a causal relationship, but if additional transactions did contribute to an increase in construction, that would lead to an increase in GDP from additional consumption of housing services from the extra homes built. For further discussion of policy changes affecting housebuilding and estimates of the impact on GDP see: E Fry & G Thwaites, The growth mindset, Resolution Foundation, September 2024, https://doi.org/10.63492/xbgr77.

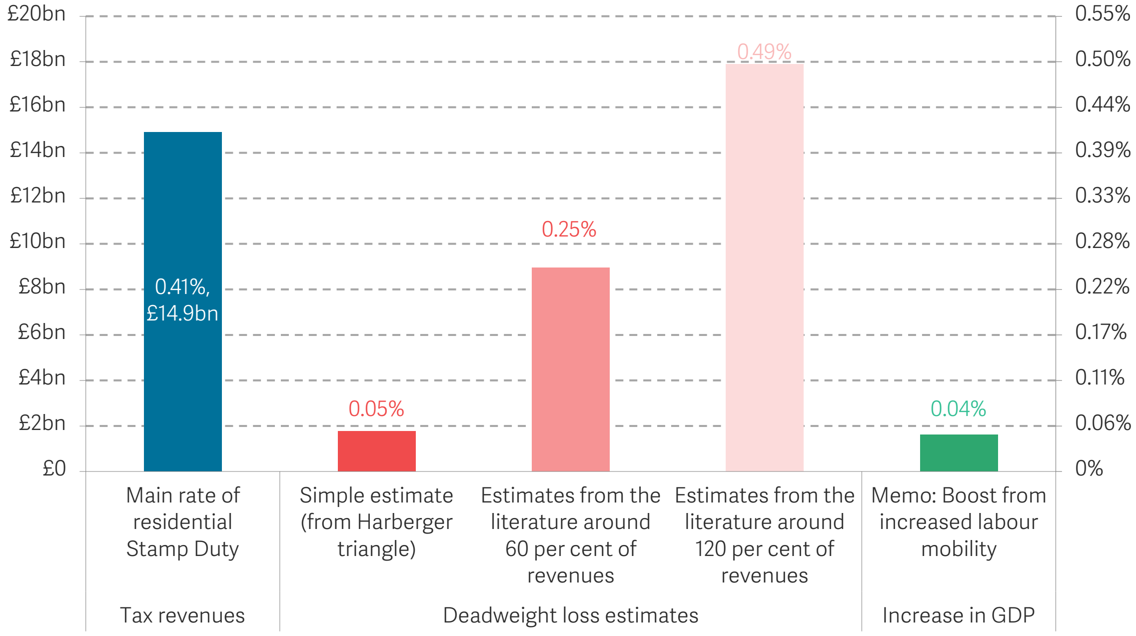
30 L R Ngai & S Tenreyro, Hot and cold seasons in the housing market, American Economic Review 104 (12), December 2014, https://doi.org/10.1257/aer.104.12.3991.

31 L Han, L R Ngai & K D Sheedy, To own or to rent? The effects of transaction taxes on housing markets, Review of Economic Studies, October 2025, https://doi.org/10.1093/restud/rdaf092.

economic harm imposed by the main rate of residential Stamp Duty, using a simple method based on the number of transactions that do not occur, estimates from the academic literature suggesting a deadweight loss around 60 per cent of revenues, and estimates implying a figure around 120 per cent. We think these reflect the likely range of the harm imposed by the current Stamp Duty regime, and therefore a reasonable estimate of the benefits of abolition. These are discussed in further detail in Annex 2.

FIGURE 11: **The benefits of scrapping Stamp Duty are large relative to the tax revenues, but small relative to the economy**

Tax revenues, deadweight loss estimates and economic impact of abolition for main rate of residential Stamp Duty, in £ billion (left axis) and as a proportion of GDP (right axis): UK, 2030-31



NOTES: The simple Harberger triangle is calculated by multiplying the number of transactions that do not occur because of the tax by the average tax per transaction and dividing by two.
SOURCE: RF analysis of HMRC, Annual Stamp Tax Statistics; OBR, Residential SDLT elasticities, October 2017; OBR, Economic and fiscal outlook, March 2026; ONS, ASHE; RF, Changing jobs; ONS, Labour share of income; KPMG Econtech, 2011; Hilber & Lyytikäinen, 2017; Nassios & Giesecke, 2025; Eerola et al., 2021; and Han, Ngai & Sheedy, 2025.

As Figure 11 suggests, the economic benefits we have modelled would not be transformative at the scale of the national economy, but they would, nonetheless, be very significant and certainly important for the people who are being held back by the current system. Moreover, we are inflicting all this harm to bring in tax revenues that, in the grand scheme of a tax system raising over £1 trillion, are a relatively small proportion of the total. In short, Stamp Duty is imposing harm out of proportion with the revenues raised, and on that basis reducing it should be a priority for tax reform.

Abolition in isolation would lead to large gains for the already wealthy

Simply scrapping Stamp Duty in isolation would be a bad move, however, leading to huge windfall gains for the current generation of property owners. This is because we would expect buyers to be as willing to pay that money to the seller as they were to remit it as tax. Abolishing Stamp Duty would push up demand for housing which, given the relative fixedness of supply, simply push up prices.[32] Such windfall gains would be large and undeserved and, in many cases, come on top of many years of large passive gains.[33] So, although the argument for reducing or removing transaction taxes is strong, this must go hand-in-hand with a shift of the tax burden onto recurrent taxes on property.

So, what impact would both abolishing Stamp Duty and introducing a proportional property tax have on house prices?

When buying a house, you also sign up to the recurrent tax obligations that come with ownership. If those future obligations increase, then demand for housing will generally fall, pushing down current prices, and vice versa for a fall in tax liabilities. This means that changing from Council Tax to a proportional property tax will push up house prices if annual tax liabilities fall, and reduce house prices if annual tax liabilities rise. On the other hand, abolishing Stamp Duty unambiguously increases house prices, and more so for the most expensive properties (because Stamp Duty is currently a progressive tax).

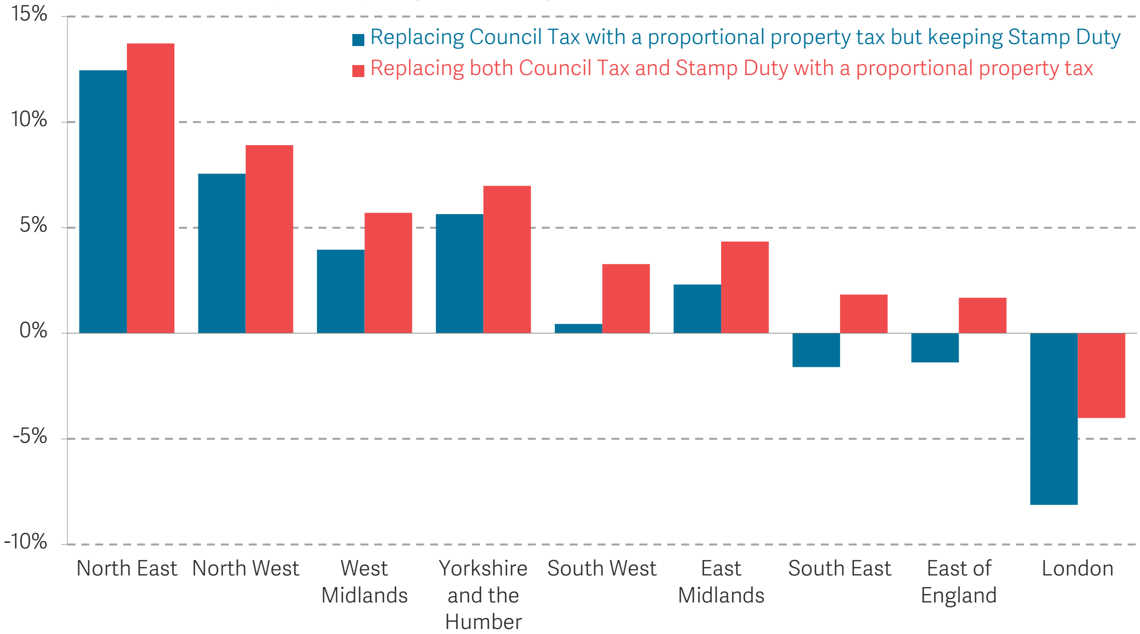
So a reform that abolishes the main residential rate of Stamp Duty while changing recurrent taxes will pull house prices in different directions; which effect dominates depends on the balance in each area. Figure 12 shows our estimates of the changes in median property values in each region (with the details set out in Annex 2). At present, households in London – as well as the East of England and South East – are paying large amounts of a painful and harmful transaction tax. In those regions, the house price gains from abolishing Stamp Duty will help to cushion the impact of the obligation to pay a higher rate of recurrent property tax. In other parts of England, where Council Tax is currently too high, house prices will rise from both recurrent and transaction taxes falling. Overall, we would expect a revenue-neutral reform to a more proportional system to reduce the gap between house prices across different areas of the country, with increases where prices are lower and falls where they are higher.

32 The OBR's latest published estimates suggest that, in the steady state, a 1 percentage point cut in the Stamp Duty rate would lead to a 2 per cent increase in prices for properties under £250,000 and a 1.5 per cent increase for properties above £250,000, see: OBR, Residential SDLT elasticities, October 2017. See Annex 2 for further discussion.

33 A Corlett & J Leslie, Home county: Options for taxing main residence capital gains, Resolution Foundation, December 2021.

FIGURE 12: **Current owners stand to gain where the tax burden falls, and lose where taxes increase**

Percentage change in the median property value as a result of the transition to a proportional property tax, by region of England: 2030-31



NOTES: Data excludes social rented homes. See Annex 2 for more details.
SOURCE: RF analysis of Land Registry, Price Paid data; MHCLG, 2024 Market Value Survey; and DWP, Family Resources Survey, including use of the IPPR tax-benefit model.

If domestic property taxes are such a mess, why has no one fixed them?

So we have set out that our system of housing taxes is a mess, both economically and from the point of view of fairness. We are not the first to point this out. The fraught and faltering history of UK property taxes – and attempts at reform – might give politicians pause for thought, but it is the successive failures to tackle this area of tax policy that have led to the unfair mess we see today. So below we set out some barriers to reform and discuss how these should be addressed.

Any change to Council Tax would require adjustments to local government funding

Council Tax plays a key role in funding local government, so any new system must come with a change here too. The geographical concentration of residential housing wealth means that a proportional property tax would require grants to local government to be adjusted. Councils currently forced to generate recurrent property tax revenues well in excess of what their local property tax base would be asked to bear under a proportional system, should receive significant increases in their funding from central government. For the purposes of this briefing note, however, we do not set out how exactly this would be done, particularly given the possible interaction with other forms of tax devolution.

Our analysis and discussion above assumed that we would have a national proportional property tax. But this reform need not undermine or reduce the discretionary power of local authorities. Under a proportional system, there could be a national rate set at the level to achieve overall revenue neutrality, with local leaders granted the powers to vary that rate. Just as local leaders in England currently have some discretion over the rate of Council Tax they set, so they could choose between higher property taxes and higher spending, or lower rates and lower spending. Of course, it will continue to be easier to raise additional tax revenues in areas of high housing wealth, but with a simpler and fairer tax base, the situation will be much better than at present.

Shifting from Stamp Duty to a recurrent property tax will be painful, but worth it

As shown earlier, in Figure 2, revenues from Stamp Duty have been on a generally upward trend. On current forecasts, the OBR projects the main rate of Stamp Duty on residential property will bring in around £15 billion in 2030-31.[34] This is not a small tax: the average price paid for a home in England in 2025 was £380,000, which would incur a Stamp Duty charge of £9,000. But it seems to have fairly low salience. This is likely to be because people pay it infrequently, and they pay it when they are choosing to move house (so it is linked to a voluntary decision). But the reason behind that political benefit is precisely the reason the tax does so much harm: because people can choose not to move, behavioural responses are large, and so is the economic damage.

So shifting this burden to a much more salient recurrent tax (and especially one that cannot be deducted at source from earnings) will be particularly painful politically. Bills paid on a regular basis by all households will rise, while those paid infrequently by a much smaller group will fall. But as we have shown, it would be a major win for efficiency and dynamism. On the other hand, reforming recurrent property taxes without dealing with Stamp Duty would leave in place a tax doing significant harm. And, as we argued above, cutting Stamp Duty without reforming recurrent taxes would leave high-income households, high-value properties and London even further from paying their fair share. The case for change is strongest when both elements are reformed together.

The change would be a progressive one overall, but many low-income households would lose

A proportional property tax would be a much fairer system. Unlike the system of Council Tax and Stamp Duty illustrated in Figure 3, where taxes are regressive with respect to property values and people living in homes of equal worth are liable to pay very different

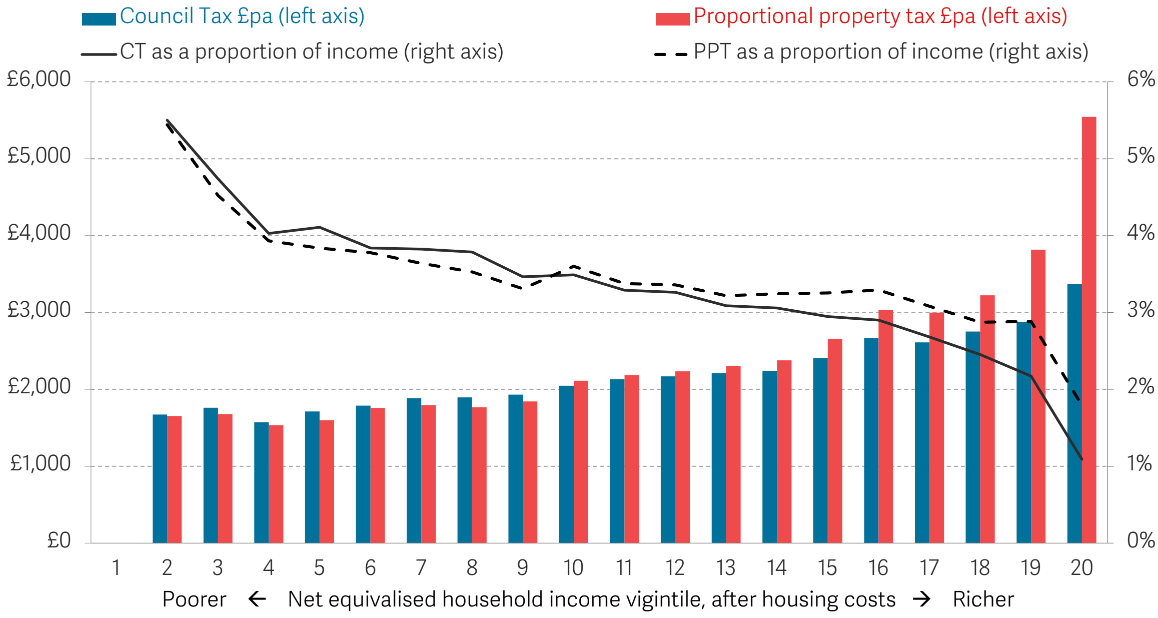
34 OBR, Economic and fiscal outlook, March 2026.

amounts, a proportional property tax would introduce a flat-rate tax universally applied with a rebate available to those on lower incomes.

But moving to a fairer system does not mean that all lower-income households will be better off: far from it. As Figure 7 showed, a proportional property tax would create winners and losers across the income distribution thanks to the huge regional variations in how property values have changed since 1991, and the fact that household income and housing wealth are not perfectly aligned. Our new system would, however, be more progressive (with respect to household income) than the current system and it would feel that way for households in terms of the bills they pay each month. Figure 13 illustrates this – it shows how much households across the income distribution would be spending on those unavoidable regular property tax bills in 2030-31 under the current system and a reformed proportional one. Households in the bottom half would be paying slightly less, and those at the very top would be paying much more. A minority of those at the bottom of the income distribution would lose out (and how to deal with those is covered in the next section), but the majority would gain.

FIGURE 13: **A proportional property tax would be less regressive than the current Council Tax system**

Average recurrent property taxes paid by households in each vigintile under the current Council Tax system and a proportional property tax in £ per year (left axis) and as a proportion of gross income (right axis): England, 2030-31



NOTES: The chart shows the tax paid by household occupants after rebates, deferrals and discounts, and does not consider who the tax might be economically incident on. The bottom 5 per cent are excluded due to concerns about the reliability of data for this group.
SOURCE: RF analysis of Land Registry, Price Paid data; MHCLG, 2024 Market Value Survey; DWP, Family Resources Survey, including use of the IPPR tax-benefit model.

Taxation of residential property does not need to do everything in terms of redistribution; the heavy lifting can be achieved by other parts of the system. But a proportional property tax gets us to a much better position by removing the current regressivity with respect to property values and reducing it with respect to incomes.

A roadmap to a better system

It is one thing setting out what an ideal system would look like, and we do not claim to be the first to do so.[35] It is another matter getting there. So, in this section we discuss how reform could be rolled out over time, addressing the practical issues along the way.

Any changes to Stamp Duty must be managed carefully

Particularly problematic in this context is the extent to which future changes in Stamp Duty distort decisions about moving today: if the Government were to announce a full abolition at some future date, or even if people were to expect that, then the housing market would seize up, as people would delay buying homes in the hope or expectation of paying less Stamp Duty in the future. That would mean a double hit of fewer people moving homes (bad for GDP and overall welfare), as well as lower tax revenues.

One response would be to abolish the main rate of Stamp Duty as soon as possible. Not only would this prevent the seizing up of the housing market, but it would also bring forward the benefits of additional transactions. The major downside, of course, is the huge hit to revenues in the period between scrapping the transaction tax and completing the move to the new recurrent tax.[36] It is politically unwise, too, to introduce the giveaway before the tax increase that pays for it.

A better approach would be to consider a credit scheme and to announce that intention in advance.[37] Under such a credit scheme, recent Stamp Duty payments could be treated as credits against future payments of the recurrent property tax. If announced in advance of any reform, this would reduce issues in the housing market: buyers and sellers would be less likely to delay in the hope of avoiding Stamp Duty, and more likely to continue

35 The Mirrlees Review proposed a single rate charged on land and property combined, replacing Council Tax and Stamp Duty (J Mirrlees et al., Tax by Design: The Mirrlees Review, Oxford University Press for the Institute for Fiscal Studies, September 2011, Chapter 16: The Taxation of Land and Property). More recently, the Institute for Fiscal Studies have called for revaluation and reform of Council Tax: S Adam et al., Revaluation and reform: bringing Council Tax in England into the 21st century, Institute for Fiscal Studies, March 2020, https://doi.org/10.1920/re.ifs.2020.0168. Other examples are: the work of the Fairer Share campaign, A Dixon et al., The Proportional Property Tax Manifesto, Fairer Share, October 2021; S Nanda, Pulling down the ladder: The case for a proportional property tax, Institute for Public Policy Research, September 2021; A Percy, Prosperity 2030, UCL Institute for Global Prosperity, July 2026. The package of property tax reforms proposed by CenTax and other think-tanks from across the political spectrum included abolishing Stamp Duty and basing Council Tax on current house values with regular revaluation, see: CenTax, Tax Reforms for Growth, November 2025. Proposals for property tax reform and other policy remedies are detailed in: J Muellbauer, Housing, Debt and the Economy: A Tale of Two Countries, National Institute Economic Review 245(1), August 2018, https://doi.org/10.1177/002795011824500112; J Muellbauer, Land, Housing and the British Economy: background paper, INET Oxford Working Paper Series No. 2025-25, February 2026.

36 A part of the revenue gap will be made up by an increase in revenues from the Higher Rates on Additional Dwellings and Non-Resident Stamp Duty Land Tax, but not enough to offset the large costs.

37 Suggestions for credit schemes have been made previously. For example, see: D Neidle, What would a land value tax actually do?, Tax Policy Associates, July 2026; A Percy, Prosperity 2030, UCL Institute for Global Prosperity, July 2026.

as normal if they were assured that tax payments might have some value in future. But limitations would be important to avoid the cost of the transition being too high; they would be justified, too, since those who have bought a home already would benefit from an increase in house value as a result of the abolition of Stamp Duty (in isolation). So we suggest that the credits can only be used for a time-limited period (say, two to five years) and only where a homeowner experiences an increase in their annual charges.

Similarly, one group that might be particularly (and understandably) aggrieved by the reforms discussed here would be those who bought a house and made a substantial Stamp Duty payment immediately before the changes to recurrent property taxes. The credit scheme would also help reduce the impact on such a group, and so make reform more deliverable.

Phasing in the changes to tax bills will be necessary to ease the transition

As we have shown, the dysfunction and unfairness that has been allowed to fester over the past third of a century means that a move to a proportional property tax will mean some households being liable for much higher tax bills. It is therefore worth considering how best to transition to the new regime.

One approach would be to implement the change to a new tax regime only when a property changes hands. However, in this world, we would create an incentive for households whose tax liability would rise substantially to stay put – as only after moving would their property be taxed at the higher rate. It would also reduce revenues in the near term, as it would be those facing increases who choose to stay put and pay the lower amounts of Council Tax.[38]

Charging tax in proportion to the value of the property is the correct aim, so the transition should be focused on getting to that point at a manageable pace. Outside the private rented sector, a sensible way forward could be a gradual shift in bills over time from the amount owed under the previous system to that under the new system. For example, the bill in the first year could be equal to three-quarters of the old bill, plus one-quarter of the new. The subsequent year the contribution from the old bill would fall by a quarter, and that of the new bill would rise by a quarter, with this fully implemented by the fourth year. Of course, doing this symmetrically for those with falling and rising bills also delays the gains for households whose bills fall, but treating winners and losers asymmetrically means temporarily forgoing revenue.

By the time that bills informed by the new valuations – at least in part – were issued, the main rate of Stamp Duty would have been abolished. While the new recurrent tax would

38 Another option would be to cap the change in bill until the point of sale, but that would mean a similar, though reduced, lock-in effect.

be revenue neutral once fully implemented, in the meantime there would be a significant revenue hole. One possibility to cover part of that revenue shortfall would be to have the bills for those who are benefiting from decreases shifting more gradually to the new basis than those facing increases. These considerations pull in opposite directions – a slower transition for those facing increases would lessen the shock, but a (relatively) slower transition for those benefiting from falls would help to plug the revenue gap.

However, we propose a different transition in the private rented sector as, in the long run, we expect rents to adjust as changes in recurrent property taxes are primarily incident on the landlord (see Box 3). Here, we aim not to stop this process but to facilitate it fairly. We therefore propose that the new property tax bill be applied to a property at the point that tenants move, or five years after the policy is first introduced, whichever comes sooner.[39] This approach means that households who take on a new tenancy have scope to agree a rent with their landlord that reflects the new property tax bill they will face as tenants, and households remaining in situ have five years to negotiate a new rent with their landlord.

The first step in any reform is to update valuations, so the Government should get on and do that

Any substantial reform to residential property taxes will rely on an up-to-date list of property values, and any reform built to last must put the infrastructure in place for that valuation exercise to be repeated on a regular basis. This should be seen as an investment in state capacity – whatever reform is decided upon in future, having up-to-date valuations in place will widen and improve the options available. So the top priority is to launch a comprehensive property revaluation exercise.

The transition would require reforms to the social security system that are overdue in their own right

We discussed earlier that the overall impact of property tax reform on tenants will be experienced through both changes in tax liabilities and through partly offsetting changes to rents.

For those whose property taxes increase, we have proposed a means-tested rebate scheme which will, in principle, increase in line with any increase in property tax. But in areas where the tax burden falls, we anticipate that rents will rise. Here, the benefit system via Local Housing Allowance (LHA) would need to play the role that the rebate scheme does for those facing higher tax bills.. At present, though, rates of LHA are frozen at their April 2024 rates, meaning that, for the majority of Universal Credit (UC)

39 Five years is slightly longer than the average length of residence for private rented households of 4.7 years. Source: MHCLG, English Housing Survey, 2024-25.

recipients who are already paying more in rent than they receive in LHA, any rent rise will just mean lower disposable incomes, and will not automatically lead to higher support. To get round this asymmetry in the benefit system – where households receive more support when Council Tax goes up but not when their rent rises – LHA needs to be unfrozen and indexed to local rents each year. Unfreezing LHA will be a necessary part of smoothing the transition to the new tax regime but, given that over half of private renting households getting UC already pay rent above their LHA rate, we should not wait for tax reform to relink LHA to market rents.[40]

For those hoping to buy, a proportional property tax may make this harder in areas currently facing tax burdens that are too high, as house prices will increase. Here our proposed Starter Deposit Scheme – a highly targeted equity loan scheme – would ensure first-time buyers struggling to save for a deposit do not get left behind.[41] As with unfreezing LHA, a policy that would allow renters to become owners and lower their housing costs at the same time would be a positive step irrespective of changes to property taxes, and we suggest that such a scheme be announced in the next Budget.

Preparation and consultation are crucial

We have made the case that those with high housing wealth and limited income should be offered a deferral scheme, rather than benefit from reduced rates. It is perfectly reasonable to ask those living in large or expensive homes to bear the costs of that choice, and unfair to exempt those with high housing wealth, but low levels of income. Such a deferral scheme may be relatively simple in principle, but there will be a host of administrative challenges. One is designing the policy, as well as considering any knock-on impacts on financial institutions and lending practices. Another will be learning from the challenges – and low take-up rates – of similar schemes seen internationally.[42] Engagement with these issues will be key to its success.

A recurrent property tax is relatively unusual in that it is not associated with a stream of income or a transaction, which contributes to its high salience. Streamlining the method of payment could be beneficial for both households and government. In the US, it is common for mortgage lenders to be the ones to pay real estate taxes.[43] In Ireland, residents can arrange for their taxes to be paid at source from salary, occupational

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40 For a more detailed discussion of the issues with Local Housing Allowance and our proposals for reform, see: H Aldridge et al., Saving private renters: Why the Government should unfreeze Local Housing Allowance, Resolution Foundation, September 2026, https://doi.org/10.63492/xjbc2944.

41 H Aldridge, S Pittaway & J Smith, Credit where credit's due?: Unpacking the distributional impact of Britain's mortgage lending rules, Resolution Foundation, March 2026, https://doi.org/10.63492/udgn419.

42 For a more detailed discussion of the international precedents and issues around designing a property tax deferral see: J Muellbauer, Why we need a green land value tax and how to design it, in S Dougherty & H Kim (eds.), Bricks, Taxes and Spending: Solutions for Housing Equity across Levels of Government, OECD Fiscal Federalism Studies, OECD Publishing, October 2023, https://doi.org/10.1787/7a22f9a6-en.

43 M Cabral & C Hoxby, The hated property tax: Salience, tax rates, and tax revolts, National Bureau of Economic Research Working Paper No. 18514, November 2012, https://doi.org/10.3386/w18514.

pensions or social security payments.[44] Putting in place such infrastructure could be a part of the preparation for transition.

These practical challenges are just two examples of issues associated with a move to a much-improved way of raising revenues from residential property. That puts a premium on preparation. Indeed, the large changes for households and local government, and the fact that this would involve a multi-year, multi-Parliament transition, put a premium on building a consensus. Alongside the necessary revaluation, the Government should therefore launch a commission into the residential property tax system, to examine the winners and losers from the current system, how it could be improved and how the transition could be dealt with. The Government should commit to making no reductions to Stamp Duty rates until that review is completed.

The scale of changes shows how important reform is

As many have previously argued, our two main taxes on housing – Council Tax and Stamp Duty – are terribly designed, grossly unfair and economically harmful. The oft-touted alternative – a proportional property tax levied at a flat rate on the value of each home – would be fairer across the regions of England, benefit the majority of households while asking more of those on the highest incomes, and be a boost to economic dynamism and overall welfare. It would clearly support the Prime Minister's central ambition of addressing regional inequality.

In this briefing note we have set out a roadmap for navigating the transition: prioritise getting an up-to-date list of valuations; promise short-run stability in the Stamp Duty regime while considering a Stamp Duty credit scheme to support the housing market; and phase in the changes to tax bills to ease the transition. But reforming property taxes would have implications for local and regional devolution, housebuilding, and the funding model for social care. A Commission would help ensure the thorny implementation issues are addressed, both for the tax itself, as well as its impact on these priority areas. There is no doubt that the scale of changes brings with it significant challenges to transitioning to a new system. But the scale of those changes shows what an abject mess the status quo is. It is not a reason for politicians to shy away from reform – it is the reason to get on with it.

44 Revenue Commissioners, Paying your Local Property Tax (LPT) charge, https://www.revenue.ie/en/property/local-property-tax/paying-your-lpt/index.aspx, accessed 15 September 2026.

Annex 1

Data citations

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Annex 2

Methodology

This annex sets out the data, method and assumptions behind our estimates of how the current property tax system, and potential reforms to it, affect household incomes and the wider economy.

We use the Households Below Average Income/Family Resources Survey 2024-25 dataset as our baseline of household incomes and the IPPR Tax-Benefit model to project incomes forward to 2030-31 and estimate how they would change in different policy scenarios.

Imputing property values

Households Below Average Income/Family Resources Survey does not record property values, so we imputed them in three steps, drawing on the Land Registry's Price Paid data for 2024, MHCLG's Market Value Survey for 2024 and the OBR's Economic and Fiscal Outlook for March 2026.

First, we assigned each household a property value drawn from the range of prices paid for residential properties in 2024. We made these assignments randomly within each region and dwelling type, ordered by Council Tax band. For example, if 20 per cent of flats in the North West were in Band A, the highest value our model could assign to a Band A flat in the North West would be the 20th percentile price for a North West flat in the Price Paid data. (We ran this step ten times using different random seeds and found that the variance in results was minimal).

Second, we adjusted these values uniformly so that the average value of social rented, private rented and owner-occupied homes in each region matched the Market Value Survey. We consider the Market Value Survey as a superior measure of the level of property values because it is based on a representative sample of homes, whereas Price Paid data captures only those properties that sold in 2024. Comparing the two sources shows that the average price paid exceeds the average property value. The most likely explanation is that social rented dwellings are worth less than privately owned equivalents and transact very rarely, so they are under-represented in transaction data.

The raw Market Value Survey dataset was not available to us. We therefore used Price Paid data to capture the distribution of property values, and the Market Value Survey to anchor that distribution to the correct average by tenure and region. The resulting dataset closely resembles the spread of property values reported in the Market Value Survey (see MHCLG, Market Value Survey, Annex Table 1.2a).

Third, having imputed property values for mid-2024, we uprated them to the 2030-31 financial year using outturn data and forecast growth from the OBR's Economic and fiscal outlook.

Estimating Council Tax liabilities

Households Below Average Income/Family Resources Survey does not include a household's exact Council Tax liability, so we estimated this using IPPR's Tax-Benefit model. The model uses each household's composition, income, region (but not local authority) and Council Tax band to estimate its Council Tax liability. This process means that (for example) every Band A property in the North West faces the same estimated maximum bill. Any variation between households in the same band and region therefore arises only from the single person discount and from Council Tax Reduction. This means our modelling does not reflect that some households live in local authorities that set unusually high or low Council Tax relative to their regional average, and this means we may understate the number of both large losers and large winners. However, the two headline figures we report – the average change in income, and the proportion of households losing at least £250 a year – would change little if this variation were captured.

Estimating the effect of reform on property values

Both abolishing Stamp Duty and introducing a recurrent property tax would change the market value of properties. We modelled these two effects in sequence.

First, we estimated the effect of abolishing Stamp Duty, applying the price semi-elasticities published by the OBR, of −2.0 for properties worth less than £250,000 and −1.5 for those worth more.[45] The percentage point decrease in the tax rate from abolishing the main rate of Stamp Duty is multiplied by the price semi-elasticity to give the percentage increase in the price of the house. This implies a more-than full-price capitalisation. The house price increases by more than the tax due decreases, because the Stamp Duty burden will be decreased not just on the next sale, but all subsequent sales. It may also be that an asset which is easier to sell, because of the reduced transaction taxes, is worth more to any prospective owner.

We then took this post-Stamp Duty price and estimated the impact of introducing a proportional property tax, assuming that over time there will be full pass-through of the change in the tax into the prices of properties and that the new recurrent tax bill capitalises into the price at a discount rate of 3 per cent.[46]

45 OBR, Residential SDLT elasticities, October 2017.
46 This is consistent with the assumption made by the OBR in their costing of the High Value Council Tax Surcharge, see: OBR, Costing of high value Council Tax surcharge, April 2026. The 3 per cent discount rate applied is equivalent to a real discount rate of 3 per cent, or a nominal discount rate of 5 per cent in the face of 2 per cent price growth. This discount rate sits at the centre of the range modelled by the IFS, see: S Adam et al., Revaluation and reform: bringing Council Tax in England into the 21st century, Institute for Fiscal Studies, March 2020.

Because a proportional property tax is levied on a property's value, and the value is affected by the change in the tax, then the bill and the price are jointly determined. The equation below shows how we resolved this.

Calculating Proportional Property Tax and the means-tested rebate

$$\textit{House price under a proportional property tax} = \frac{(\textit{house price after SDLT is abolished} \times \textit{discount rate} + \textit{annual Council Tax liability})}{(\textit{discount rate} + \textit{proportional property tax rate})}$$

With post-reform property values in hand, the maximum annual proportional property tax liability follows directly from the tax rate.

To estimate which households could access a means-tested rebate, we again use the IPPR Tax-Benefit model. Because the model works from a regional average tax base, we supplied it with a regional tax base reflecting the average liability a proportional property tax would generate, and used it to calculate what proportion of that averaged liability a household could have covered by a rebate. We then applied that proportion to the household's actual proportional property tax liability to estimate the rebate available.

This approach correctly identifies households entitled to no rebate and those entitled to a full rebate. It will slightly understate the rebate available to the minority of households entitled to a partial rebate.

Rent and the response of Local Housing Allowance

Box 3 sets out our assumptions about how much a change in property taxes falls on tenants rather than landlords. Any resulting change in rents will in turn interact with entitlement to means-tested support.

To capture the effect of a proportional property tax on household incomes (so including benefit income), we assume that rent changes pass through pound for pound to the benefit income of private renting households already receiving Universal Credit or Pension Credit. This assumption does not hold while Local Housing Allowance (LHA) is frozen. But, as we have argued elsewhere, an indefinite LHA freeze is unsustainable.[47] Because a proportional property tax will cause rents to move in both directions, its impact on LHA-associated spending, were it to be unfrozen, is relatively small at approximately £50 million in 2030-31.

Deadweight loss of Stamp Duty

Separate to the model described above, in Figure 11 we plot estimates of the economic harm imposed by the main rate of residential Stamp Duty.

47 H Aldridge, Housing Outlook Q4 2025, Resolution Foundation, October 2025, https://doi.org/10.63492/vbh1305.

The simple Harberger triangle method gives a lower bound estimate, measuring the harm only from transactions that do not occur in a given year. It is estimated by multiplying the number of transactions that do not occur by the average tax for each of those transactions, divided by two. We estimate the deadweight loss from this method to be 12 per cent of revenues raised.

The existence of the transaction tax, Stamp Duty, means that the current stock of residential property matches is worse than it would be in the absence of the tax. An extended period of housing transactions would be required to undo this harm; the slow rate of this is part of the reason why the simple Harberger triangle is likely an underestimate of the deadweight loss of the main rate of residential Stamp Duty.

Analysis from a computable general equilibrium model for Australia finds the average excess burden of residential transfer duty is equal to 60 per cent of the revenues.[48] This is within the range reported by Hilber and Lyytikäinen in their analysis of the UK Stamp Duty system.[49] Another paper from Australia finds that the marginal excess burden of property transfer duties is 39 per cent at 0.01 per cent of GDP rising to 76 per cent at 1.1 per cent of GDP; the burden of property transaction taxes in the UK sits within this range.[50]

However, there are other papers which suggest higher levels of deadweight loss: around 120 per cent of revenues raised. Evidence from Finland estimates an excess burden of 130 per cent, based on a reform that increased the rate charged on apartments and controlling for spillovers impacting the control group.[51] Evidence from Toronto's Land Transfer Tax suggests a welfare loss equivalent to 111 per cent of revenues raised, with a significant portion coming from distortions to flows between the rental and ownership markets.[52]

There are also estimates in the literature of much larger possible impacts from the abolition of Stamp Duty and replacement with a broad-based annual land tax, such as Chang et al. who apply a spatial general equilibrium model to the Australian economy.[53] They estimate that reducing stamp duties would lead to an increase in GDP of 3.38 per cent – by improving the allocation of labour resources within and between cities, increasing aggregate productivity. Such modelling comes with a high degree of uncertainty and would imply a much bigger change in our economic geography than assumed by our analysis of transactions and labour mobility.

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The Resolution Foundation is an independent think-tank dedicated to lifting living standards in the UK. We focus particularly on households with low and middle incomes; those on low pay or in precarious work; and those vulnerable to financial shocks. We also investigate fairness between the generations in our Intergenerational Centre.

We aim to provide rigorous analytical work, develop effective policy proposals, and use our expertise to affect direct change. We analyse the trends and outlook for living standards, including for different age groups, family types, and levels of household income and wealth, and seek to promote greater understanding of these. Our research focuses both on the specific areas of the economy that matter most for people's living standards, including work and housing; and on economic growth and productivity as the route to sustainably higher living standards. We also examine the role of government in improving living standards including through taxes, social security and public services.

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