

Why Tax People for Moving? A Non-Technical Paper on Stamp Duty

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Currently many European nations levy a tax on house purchases – not just on new homes but on second-hand homes. In countries such as Italy, France and Spain this tax is often large (more than 5% of the price of the house).

This is a mobility tax.

The British government is in the coming week considering raising its tax rate (called stamp duty). At the moment, it charges 1% on most houses, but more than this above £250,000, and far more above £500,000.

There are various reasons why it would be better to reduce Europe's house-purchase stamp duty taxes.

Reason 1. Economies run more smoothly if people can move around. We need workers to be able to match their skills to those being looked for by employers in different areas. Taxing mobility per se does not make sense.

Reason 2. The country with the highest labour mobility in the world is the United States. Its people are approximately three times as mobile across regions as the British. Unlike most other industrial countries, the US charges no 'stamp duty' tax on home buying. This helps its citizens move to the jobs.

Reason 3. In small congested countries, stamp-duty taxes create bad externalities. Such taxes encourage workers to stay put when changing jobs. That means workers end up commuting further and further to work. Because we do not have prices on roads, that is not a purely private matter. For if everyone does so, we all get in each other's way. The south-east of England is a good example.

Reason 4. If the aim of stamp duty is to encourage people to be renters, it will not work. To do that, the huge capital-gains tax breaks on Britons' housing would have to be reduced, and the life of landlords would have to be made easier.

Reason 5. If the purpose of stamp duty is to improve fairness in society -- to act like a wealth tax in other words -- there are better ways to do that without taxing mobility itself. We could tax a house only once (when new), for example. But more important, if we were concerned to reduce disparities in wealth, we would not give large tax-free concessions to those who hold shares in approved ISA and PEP schemes. The poor do not know what the acronym ISA means and have little idea about probability theory. They buy enormous quantities of national lottery tickets with a rate of return of -50% a week; the rich buy ISAs with a non-taxable stock market return of 11% a year. Over decades, although no-one seems to have thought about this, such a process will -- by the power of compound interest -- eventually redistribute Britain's wealth into a tiny number of hands

Reason 6. If the aim is to reduce the size of house-price booms and busts, stamp duty will not work. It has a once and for all effect on the level of house prices, and probably no major influence on underlying volatility.

Reason 7. The argument that a 1% stamp-duty tax is low misses an important point. House prices double every ten years. Before we know it, most of Britain will be in the higher tiered bands of tax, far above the 1%, and politicians will forget to adjust the thresholds down.

Reason 8. It is common to hear the argument that a 1% tax is small so it does not matter. This is wrong. Most movers in Britain own only a quarter of the house they are buying. The rest is owed to the mortgage company. Then the effective tax is 4% of my worldly assets. I have to pay £1000 of my entire life's savings of £25,000 to buy a house valued at £100,000 pounds. No wonder the British, and other Europeans, do not move very much.

I should finish. I live in a large house in the country and have a long way to drive to work before the traffic jams start.