

Funding the Future

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It's almost [two years since I wrote](#) the following blog, but it seems to me that it is as relevant as ever, which is why I repeat it here:

The Observer has reported:

Alistair Darling should levy a £5bn "empty property tax" on up to a million homes left vacant by absentee landlords, to help meet the costs of the financial crisis, trades unions will argue tomorrow.

The TUC wants the chancellor to charge five times the usual council tax — an average of £5,875 — on homes standing empty to persuade owners to sell or let them. It would like to see overseas landlords charged UK income tax on rental payments unless they can prove they are paying it in their home country.

Brendan Barber, TUC general secretary, will use a speech to an economic conference in London to argue that the number of homes standing empty, thought to be a million on some estimates, is a national scandal.

"Across the UK, the queue for social housing is growing. In London especially, a chronic housing shortage is pushing prices well above their pre-recession levels — and out of reach of many potential home owners.

"How can it be fair then that a million houses lie empty across the UK? These properties — often bought for purely speculative purposes or as a vehicle for tax avoidance by overseas landlords — contribute to our housing crisis and fiscal deficit."

In its submission to the Treasury before Darling's pre-budget report on 9 December, the TUC says the chancellor should use tax measures, as well as public spending cuts, to deal with the government's deficit âš„ and ensure that the rich bear their fair share of the burden.

So let's get the caveats out of the way first of all:

a) Of course short periods of inoccupancy would not count — indeed up to a year should not be questioned

- b) *But second properties should count as vacant and be subject to an additional charge — even if at a lower rate than that suggested for wholly vacant property — because you can't live in two properties at once*
- c) *Holiday lets should not count as vacant — but only if really let. They do play a role in the tourist economy*
- d) *There should — as with some rules in capital gains tax — be room for appeal in special circumstances*

These noted, the proposal makes complete sense. We have a shortage of housing. That housing is needed now. The UK has a stock of available housing that is being withheld from the market. By pricing it into the market valuable resources are saved, need is met and planning stress is reduced. The increased supply of housing will also reduce house and letting prices: another social gain.

As such the potential gain for society from changes in behaviour promoted by this tax is enormous. And if the tax yield falls as a result — so be it. That is part of the intention.

And dealing with the offshore landlord issue — evidence is available that many occupied and rented properties are now being registered through offshore, tax haven companies registered in locations such as the British Virgin Islands, Jersey, Guernsey and Switzerland. For all practical purposes it is almost impossible to determine who really owns these companies. The reality is that they could be owned by UK resident people who are hiding that fact by registering these properties in the names of tax havens companies.

Anecdotal evidence from HM Revenue & Customs also suggests that although there is a requirement that a non-resident landlord company [be registered](#) with HM Revenue & Customs this scheme has become a virtual rubber stamping exercise: enquiry is not made as to the beneficial ownership of the companies that apply to receive rent from the UK without taxes being deducted at source and a list of properties the landlord owns is not demanded.

That is why the TUC suggests that unless an overseas landlord who is an individual is willing to prove that they have paid tax in their place of residence on the rent they will receive from a property in the UK then tax at basic rate should be deducted from all payments of rent made to them either by their tenant or their letting agent. Procedures to do this are already in existence, but it is at present possible to apply for gross payment of the rent without ever proving that tax is paid elsewhere on the income arising. This should now change and tax should be paid in the UK in the first instance until the income can be proven to have also been declared elsewhere (an exception being made for EU residents).

And, in the case of the non-resident landlord being a company there should be a

different requirement. In every such case tax should be withheld at source on the grounds that the property in the UK represents a taxable branch of the company in the UK. That tax withheld should be required to be paid to HM Revenue & Customs at least quarterly, but with the right to make application for repayment at the year-end if it can be shown that the tax due on a properly computed profit was less, but then only if the full beneficial ownership is reported to HM Revenue & Customs with evidence of the standard required by anti-money laundering regulations being submitted as evidence e.g. copy passports as proof of identity and utility bills as proof of place of residence. This would curtail the massive risk of tax evasion in this market through use of impenetrable offshore companies.

The final change would apply in the case of offshore companies owning property in the UK that had not proven the identities of their owners to HM Revenue & Customs: in such cases capital gains tax should be assessed on sale by requiring that 20% of all sale proceeds be paid as tax unless full beneficial ownership of the offshore owners of the company are provided and tax computations submitted with tax still then being due on the resulting profit.

This policy has four critical objectives:

- 1. To increase available housing stock*
- 2. To bring down its price*
- 3. To tackle tax abuse*
- 4. To target offshore abuse*

All are key objectives for any government. This is why this tax makes sense. And it will also raise significant revenue from a source that largely avoids and evades it now: that is the added bonus that should sell it to any Chancellor.

Disclosure: I advise the TUC on tax issues.

The UK's economic problems have got worse since 2009. We could do with £5 billion.

More important than that, we could do with all these houses being put to use.

And we could do with many more being put on sale to bring house prices down.

Our young people have a right to aspire to what so many have done before them - which is to buy their own home. We should help them do so.

And it at the same time we remove the blight of empty homes, increase our tax yield, stop tax abuse and offshore evasion and reduce the stress on green spaces all the better still.

Surely the time for an empty property tax has come?

There is more detail [*at page 29 here for those interested.*](#)