The All-Party Parliamentary Group (APPG) on Inheritance and Intergenerational Fairness met on Tuesday 07 July 2020 for its second virtual meeting during the current parliament.

**Participants**

- John Stevenson MP (Chair)  
  Fiona Graham, Institute of Family Business  
- Emily Deane, STEP Staff (APPG Secretariat)  
  Francesca Power, KPMG  
- Robert Carington, STEP Staff  
  Jane Page, HMT  
- Thomas Ashton, Aide for John Stevenson MP  
  John Bunker, STEP  
- Amanda Simmonds, STEP  
  Kate Willis, CIOT  
- Alan McGuinness, HMRC  
  Kevin Custis, STEP  
- Anthony Pitcher, STEP  
  Mark Pickard, OTS  
- David Dickson, Family Business Matters Limited  
  Mark Walley, STEP CEO  
- Denese Molyneux, STEP  
  Patricia Wass, STEP  
- Emma Chamberlain OBE, STEP  
  Scott Clayton, TACT  
- Emma Haley, STEP  
  Zack Davies, ICAEW

1) **Introduction and welcome**

The APPG’s Chair John Stevenson MP welcomed participants to the meeting, and highlighted the purpose of the meeting, which was to consider intergenerational fairness and the housing challenge, with a focus on the tax considerations, specifically council tax, SDLT and the main residences relief.

2) **Tax considerations for discussion**

John Bunker presented his thoughts for discussion on the main tax considerations in relation to the housing challenge, which covered:

**Potential housing policy objectives**

1. Build more houses and flats as homes  
2. Stop/reduce homes being left empty  
3. Improve insulation and energy efficiency in homes
4. Helping first time buyers get started with homes

5. Intergenerational fairness agenda, and the need to address the future after years of tax incentives for main homes such as Principle Private Residence (PPR) Relief, Mortgage Interest Relief at Source (MIRAS), etc.

The existing measures against second homes, buy to let and non-residents/enveloped property

1. Letting property: phasing out tax relief for deduction of borrowing costs – could this be seen as an unfair tax advantage?

2. Capital Gains Tax (CGT): 8% surcharge on disposal of residential properties

3. Accelerated dates for paying CGT on residential property (30 days) and Stamp Duty Land Tax (SDLT)

4. CGT on non residents + Annual Tax on Enveloped Dwellings (ATED) + 15% SDLT on enveloped property

5. SDLT: 3% higher rates on additional dwellings (HRAD) from 1.4.16

The question was raised as to whether anyone had analysed the effect of all these measures.

Review of the three most relevant taxes

1. Council Tax

It was heard how this tax has replaced the community charge (Poll Tax) and has moved from a charge on the individual to one on property, banded with a higher rate on higher values. However the increase is not proportionate to the increase in value, so it could be seen as a regressive tax.

The following questions were raised in relation to considering intergenerational fairness:

   o Could it be more progressive, and increase higher?

   o Only a small proportion (25%) of local Council revenue was from local receipts.

      • Part of a wider review of local tax: problems of business rates?

   o Revaluation of properties needed? The last occurred in 1991

   o Interaction with a possible wealth tax or a property value tax?

2. Stamp Duty Land Tax (SDLT)

John Bunker referred to the fact that this is a tax charge on purchases and transfer of interests in land, and that it generates large sums that are easy to collect via solicitors and conveyancers. The following major changes were discussed:

   i) 3% Higher Rate for Additional Dwellings (HRAD) charge - from 1.4.16
• How this was part of the attack on Buy to Lets (BTLs) and aimed to reduce the attractions of owning residential property

• It raised £2 billion in its first year – and now brings in over £3 billion pa.

• There are positive elements to it e.g. £40,000 de minimis and the granny annexes exemption.

• However the key issues raised on the way it operates, which need further exploring, were identified as: a lack of join up with First Time Buyers Relief (FTBR); and there is no exemption for first-time buyers through the relief for replacing main home.

ii) First Time Buyers Relief – from 1.11.17

It was heard that this is a relief on buying up to the value of £300,000, which saves first-time buyers a significant cost when funds are short.

However a few issues on the way it operates were identified, including that there is no £40,000 de minimis if the buyer has ever owned any interest in a residential property; and some issues with a lack of joining up with HRAD.

3. CGT Main Residence Relief on Principal Private Residence (PPR)

It was stated that this relief is a key factor in helping to provide security of housing, enabling people to move / upsize / downsize. However it was also noted that it builds up equity and secures wealth, by helping to maintain and enhance the residential property market.

The 2020 Finance Bill made two major changes: firstly to question whether now is the right time to reduce last period of occupation from 18 months to 9 months, a real problem for some who need to move, including separating couples; secondly to question whether letting relief is a real problem, and if it should be abolished and effectively (as is being done) replaced by a rent a room relief.

The right to elect a main residence was highlighted as important, with SDLT highlighting problems about what is determined as a main home, in particular that it does not take into account that many own a second property to make the combination of home and family in different areas work.

A query was raised in HMRC’s Taxation of Trusts Review regarding PPR on trusts where the life tenant occupies, but another gets capital later, which seemed to miss the point of a trust meeting two interests.

3) Discussion in relation to potential tax reform

1. Council Tax

A discussion was held on Council Tax. This tax is easy for the Government to collect and raises a substantial amount, therefore it will not be abolished, but there is room for reform. The discussion covered a number of points, such as whether additional bands could be introduced, and what should be done about second homes and holiday lets. The example of New York, where empty houses are taxed significantly, was floated as a model that could be pursued, as was Devon, where some towns had policies in place that homes could only be bought by locals to stop them being priced out. Some suggested that the Council Tax on a second home should be double, and others suggested that
higher value properties, for example in London, should be taxed significantly more. Another point raised was the need to revitalise local high streets by finding an incentive to fill out ex-retail properties that have gone out of business due to online shopping, by making it attractive for the ex-shop owners to part ways with these properties.

2. SDLT

The point was raised that SDLT should be reformed so that the sellers should pay it and not the buyer, however it was raised that this may result in some elderly people not selling. The need to bear in mind the geographical aspect was raised and that any cut or relief would go further in some parts of the country than others. The Chancellor’s potential reform to increase the SDLT threshold to £500,000 was mentioned, but most felt that it would not be incentive enough for younger people to buy during this economic crisis and uncertainty.

3. PPR

Potential PPR reforms were discussed, such as implementing an upper limit for the relief, or taxing a certain amount, such as the first 28%.

The need for integration between the different taxes was stressed, with the idea being mooted that the same definition of a home / dwelling could be used throughout all the different taxes.

It was stated that something needed to be done to get people on the housing ladder and to help eradicate unfairness. As a first step, it would be useful to have an analysis on the main measures in the last five years on second homes, as there is good scope to do more, but it has to be done in a way that doesn’t prejudice people and stop the market. It was suggested that the Government needed to look at the medium term and to bear in mind the importance of integration of all of these taxes and reliefs.

4) Next meeting

Tuesday 21 July, 3-5pm: Intergenerational fairness in relation to care home funding – how to fund long term care fairly and effectively – United for all Ages and Kelly Greig, Partner at Irwin Mitchell will present.