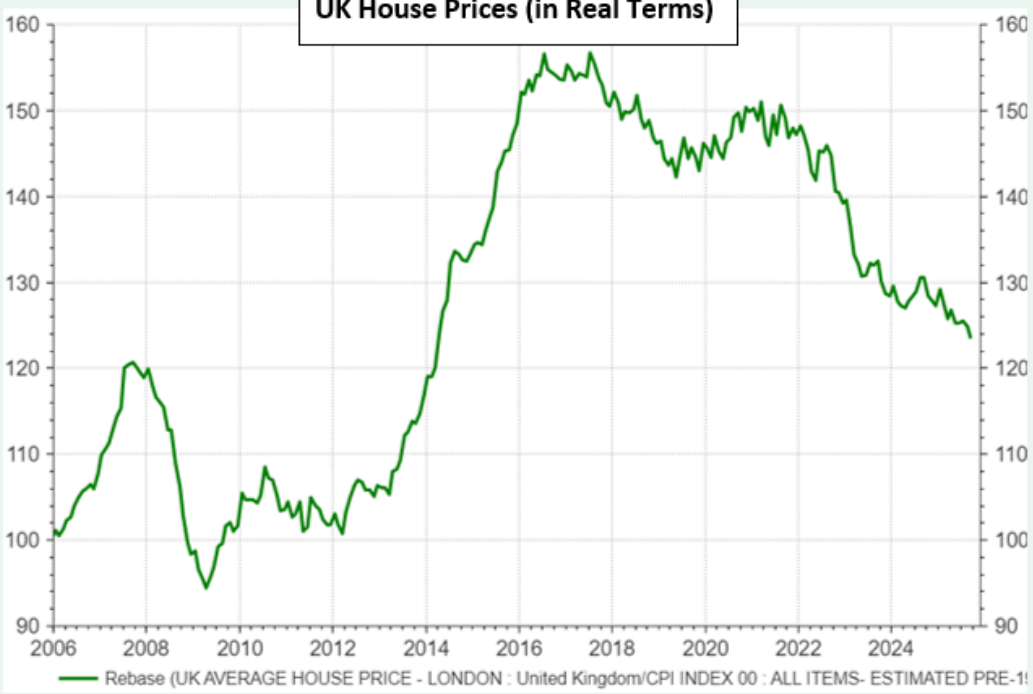
How will the mansion tax impact behaviour?

Key points:

- Ask someone when London house prices peaked? That is, in real terms, adjusted for inflation. They're unlikely to guess the correct answer of July 2017. Using available land registry figures, inflation is eating away at real house prices. On this basis, prices are back to April 2014.
- So is investing in property really better than shares?
- Now along comes the 'mansion tax'. For most people, taxes change the way we behave, which is something governments often forget.
- If you use a simple discount rate method to work out the impact of this tax: a £2.2m house facing a £2,500 annual surcharge should, in theory, drop in value by around £62,000 when applying a 4% rate.
- In a falling market, the drop could be even larger. At the very top end of the market, where price discovery is more ethereal than market driven, the impact could be more starkly pronounced.
- Falling prices at the upper price end of the market has a disproportional impact on stamp duty revenues, given how high those stamp duty rates are.
- Then there's the wider economic impact. Building material inflation has already severely reduced the attraction of extensions. Using bands, rather than a fixed percentage rate, the impact will be felt at several price points. Less building work all round, means less VAT revenues.
- The 'mansion tax' could go the way of VAT on education, costing the wider economy more than it raises in tax.



Source: LSEG Datastream

Timeframe: January 2006 to September 2025

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Sources: Collidr, Bloomberg. Indices: Barclays, FTSE, Bloomberg, STOXX, Japan Exchange Group, MSCI, S&P, New York Mercantile Exchange, Chicago Mercantile Exchange, Bureau of Labour Statistics, US and Office for National Statistics, UK.

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