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Britain's Autumn Statement

The butterfly effect?

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On December 5th George Osborne, the British Chancellor, delivered the Autumn Statement, where he outlined the British government's economic policy for the next few months. We are hosting a round-table discussion of the Statement and related issues. Next up is Danny Dorling, professor of geography at Oxford University.



THERE WAS one big surprise in the Autumn Statement: "...from April 2015, we will introduce capital gains tax on future gains made by non residents who sell residential property here in the UK." On the face of it that looks like a small change. Non-residents who have brought property in Britain, often in London, will have to pay capital gains tax on any future rise in the value of that non-main-residence property, but only on rises in value that occur from the time of the next general election onwards.

It's a small thing, isn't it? Just "a little extra fairness" is how George Osborne described it. And he tried to introduce it in a way that was calculated to have no immediate impact on the housing market. After all, it is only a tax on the rising value of property for a few people and only then on any rises in the distance future (with "distant" being 16 months away). However, it may become what the Statement is best remembered for long after we have forgotten that this was the day we learnt we might be working until we are 70, or that there ever was a pasty tax.

By definition all non-residents in Britain are not living in their primary property and thus any property that they have purchased, or intend to purchase in future, will from April 2015 onwards become liable for capital gains tax (CGT). Usually the primary reason wealthier foreigners bought property at inflated British prices was that their purchases were exempt from such taxation. Suddenly the tax-avoidance-rug has been pulled out from beneath the feet of the central London housing market.

The reaction of financial advisors was instantaneous. Within minutes of the announcement Tony Hazell, a financial journalist, was explaining online that: "Papers released as part of the chancellor's Autumn statement reveal financial advisers will have to wait until early 2014 for a consultation paper to be published on how HM Revenue and Customs will chase expats for CGT."

But why should non-resident purchasers want to know the detail of how the British tax authorities might try to chase them in future for any taxes they fail to pay on the rising value of their property? Could it be that if it looks like George Osborne really means it, and the proposed enforcement of this extension of property taxation will be effective, then there is a further great concern out there? Isn't now the time to sell up that empty London townhouse you are holding as a safe place to store your money, especially if the market has peaked? Especially if this announcement is the reason why you think that now is nearing the peak?

In reacting to the news Damian Bloom, a partner at international law firm Berwin Leighton Paisner, suggested overseas buyers should worry less as the taxation they are now expected to pay only applies to them in the future. However, he then added "...it would be helpful if the government could confirm whether there will be any further changes to the taxation of residential property for the remainder of the current parliament." In other words, once George Osborne has done this once it is far easier for him to do it again, especially to a group who have no vote at the election of May 2015; as they are all, officially at least, non-resident.

All those affected could choose to become resident and claim that their property is suddenly their primary residence. However, even if they do that and get away with it, they are still then subject to British income tax. They could hope that when they come to sell up their British assets in future they can simply spirit the money out of the country faster than the tax authorities can chase them, but the authorities might be thinking of ways to deal with that, perhaps requiring that the tax is paid annually on any capital gains made in theory in 2015, 2016 and ever onwards, with a rebate being awarded should less gain actually be realised.

In response the non-residents could decide that they like the idea of paying more taxes and playing a fair part. Or they could sell, quickly. They would sell, and new non-residents would be less likely to buy, because their long-term interest is in growing their wealth. In theory then, more UK residents will soon be able to buy homes, especially in central London.

Not all non-resident property owners in the UK are super-rich foreigners, but almost all those who stand to potentially lose the most in future are. And this change suggests that the wealth of these people is now seen as a legitimate target for the authorities. December 5th 2013 marked the point when even the Conservative party concluded that we were all not getting enough simply from the trickle down of a few Russian baubles and American dollar tips.

The CGT announcement is an extra tax on a tiny number of people that only applies to profits made after the next election. But this small change could have a butterfly effect. What is it that holds up confidence in the entire UK housing market? Why are prices rising here when they have collapsed all around, from Iceland to Ireland to Spain, Portugal and Greece? Could it be that the super-rich coming, when Britain was a safe place to hold money as untaxed property, gave us all more confidence than we should have had? Now we find out.