

It has been suggested that the house price (land price) bubble could have been prevented by a Capital Gains Tax. There is also a feeling that capital gains, on, for instance, share transactions, should be taxed as they are an unearned profit. So shouldn't we be supporting them?

Paper profits may be nothing more than that due to the effects of inflation on all prices. More often, some of the paper profit is inflation and some is profit. It is also the case that the capital gain may have been the result of actual work, in which case it is a reward for labour, ie wages. We are opposed in principle to the taxation of wages. The labourer is worthy of the full reward for his efforts. It may, however, be that the capital gain is an increase in the selling price of the land element of the asset that is being traded. This is often the case, but this kind of trading only takes place due to volatility in land prices, and that occurs because governments fail to collect the rental value of the land as their primary source of revenue.

Capital gains taxes are irrelevant to the real problem, which is the speculative trading in land titles or in assets whose value is largely that of the land titles that comprise them.

Anyone advocating that property sales should be subject to capital gains tax should take note of the situation in Sweden. Elderly people who bought houses in inexpensive areas in the 1970s now find that those neighbourhoods have become desirable and very expensive. If they sell, they are liable for a big capital gains tax bill, leaving them with insufficient to buy somewhere else. They are caught in a tax trap. Their only option is to stay put, reluctantly, in unsuitable property, thereby causing a shortage for those who would actually like to live there.

Stamp duty

What of stamp duty? We see no moral or practical justification for such a tax, other than to cover the cost of maintaining the Land Registry. There can be no justification for a tax on land transactions. Anything that adds to the cost of moving means that the land market works less efficiently than it could, thereby depriving some people of the ability to move to the place that best suits them.

We assert yet again that the appropriate way to tax land is to collect its annual rental value.