



## The Law of unintended consequences.

Once again it's election season and - contrary to what we read in the papers - I genuinely think that most people are fundamentally good by nature; at home, they love their families and when they go to work, they try to do the best they can and, whether it be sweeping the streets, teaching a new generation of scientists, administering a hedge fund or running the country, they set out to do things well - rather than make a hash of them. However, despite this history is littered with instances where actions taken for all the right reasons, end up as an almighty cock-up, for reasons that were not at all clear to their instigator. Politics has proven to be the happy home of the law of unintended consequences and Taxation is a subset of politics notorious for well meaning changes leading to unwanted results.

During the 1970's, income tax in the UK reached a dizzying peak of 83% for top-rate taxpayers, with investment income taxed at 98%. The father of a friend of mine who, at the time was a famous surgeon, used to give up work at Christmas and not start again until the 4th April in the following year; his view was that there was no point in going to work, simply to hand most of the money to the government. An effort to 'squeeze the rich until their pips squeaked', simply resulted in top rate tax payers spending time on the golf links that could have been spent at work, earning money and paying tax.

In property terms, there are an abundance of instances where successive UK governments have found themselves scratching their heads, as new policies have not worked out as expected.

In the 18th century, Window Tax must have seemed like an infallible winner,

until disgruntled home-owners blocked up a number of their windows, in order to reduce their tax bill. The results of this can still be seen in some terraces of Georgian London houses.

At the end of the 1980's, the domestic rate system looked in much need of a profitable overhaul; Poll tax was the result and tax revenues fell rather than rose, much of the population found themselves disenfranchised and the resulting civil unrest did much to finish the career of the prime minister.

Today, the latest shuffling of SDLT (stamp duty land tax) thresholds and the raising of rates payable from 7% to today's top rate of 12%, has resulted in many home owners going out of their way to do anything they can to avoid moving; dig a basement, build an extension or push out a loft - anything seems preferable to moving and paying 12% SDLT - it's easy to forget that this was a flat rate of 1% between 1984 and 1997. As a result, several of the leading agents are reporting that whilst prices are the same, the volume of sales is almost precisely half what they would expect for the time of year, so the overall tax-take will have fallen.

In addition, the financial imperative now starts to favour unmodernised houses over modernised, because you not only get a reduction for the price of the work, but you also lose the extra SDLT; for example, a client considering the purchase of one of two houses, one modernized for £3.5m the other unmodernised for £2.9, realized that the saving was not just £600,000, but £72,000 over and above that figure in SDLT. Put that in context, that is the cost of rewiring and plumbing. Having said all of that, somewhere in the refurbishment cost will be 20% for VAT, which probably goes to prove Benjamin

Franklin's aphorism that "In this world nothing can be said to be certain, except death and taxes".

Following the May election, several of the political parties have promised to implement a new property tax dubbed "mansion tax", which is designed to target the owners of houses with a value of over £2 million. In the north of England and Scotland, this probably represents a sum beyond the wildest dreams of avarice, but south of Milton Keynes this starting point encompasses much of the south-east of England, and includes swathes of extremely modest houses in and around London.

The bulk of the residents of these mostly unremarkable houses are solid, professional people who bought more than ten years ago, when the houses were worth a fraction of their value today; they are not rich and have incomes that are now grossly out of kilter with the value of their houses, as a result of having accidentally chosen to buy houses in places that just happen to have become popular with a new generation of cosmopolitan buyers. It stretches credulity that we are asked to think of terraced houses in Harlesden, Kilburn and Shepherd's Bush as mansions - after all, Shepherds Bush was where "Steptoe & Son" was set, so not the natural habitat of millionaires or Oligarchs.

The likely effect of such a tax will be that long-term, worthy, London residents will be forced to sell their houses to those that can afford the new taxes; a form of ethnic-cleansing of middle-income London home owners, in favour of the very rich. I'm quite sure that this can't really be what two of our major political parties intend... can it?