Chancellor Osborne hit the buy to let market with tax rises

In the spring budget of 2016 just before the referendum the government decided it wanted to rein in buy to let housing investment. It introduced a 3% extra Stamp Duty on BTL and other second homes, and announced the phased removal of interest relief on purchasing Buy to Let property.

I presume the government is pleased with the results of its tax rises. According to the Investment Mortgage Lenders the £25 bn of net investment in 2015-16 collapsed to just £5 bn the year after the tax rises. This 80% decline has certainly truncated the successful growth in private rented accommodation, and had knock on effects to the workloads of house agents, builders, renovators and removal firms.

I did not quite understand why policy reversed, as it had been policy of both Laour and the Consevatves to enocurage a larger prvate rented sector to complement social rented and ownership. Many people were fed up with the very low interest returns on their savings held in relatively safe bonds or in savings accounts. They decided to do what the Bank and its Quantitative Easing policy was meant to be about, taking more risk with their savings and introducing some borrowing to their investments to make them more worthwhile. This substantial sum did produce some more homes for people to live in, and helped reduce the rate of rent increases people experienced.

It does make another good example for my series showing how higher taxes do have a direct and often profound effect on behaviour. Here is another great illustration of how higher taxes reduce economic output. The government achieved all it could have wanted in the first year of the tax with such a large reduction in Buy to Let. As a result it also lost a range of other tax revenues on the activity which was cancelled.