Tax barriers to housing supply

OMB | Personal tax | Indirect Tax | Large Corporate | Property Tax



26 November 2025

The CIOT has written to the government about the current tax barriers to housing supply and possible solutions.

The government has committed to a target of building 1.5 million new homes by the end of this parliament and announced land, regulation and financing reforms to support small and medium-sized enterprises (SMEs) and smaller housebuilders in reaching this target. The government has also committed to building more affordable homes.

The CIOT has made a submission to help identify tax barriers in the current tax system that may hinder delivery of the housing target and related initiatives. The submission includes a case study of developments in the West Midlands, Bedfordshire and Oxfordshire.

Land assembly for development

Complex tax issues arise when neighbouring parcels of land, each held in different ownership, are brought together to produce a combined site for housing development. Although the tax complexities may only affect a relatively small number of taxpayers, the economic effect is likely to be significant due to the values involved.

The complexity of the current tax treatment distorts the economic decision about the optimal route to assemble the site, which can slow or even prevent delivery. As a result, landowners may choose not to pursue any form of land collaboration.

We suggest ways in which these barriers to sustainable development might be addressed in both the short and longer term.

Stamp duty land tax property traders' relief

Reliefs from stamp duty land tax are aimed at facilitating liquidity in the housing market by allowing housebuilders and other property traders to purchase a homeowner's property so that the seller could proceed with buying a new home. These reliefs do not cover all situations, for example where the seller is moving into a care home.

Some of the reliefs allow the property trader to refurbish the house before selling it on, with expenditure capped at £20,000. That amount has not changed from when the exemptions were introduced in 2004. It does not allow for basic inflationary increases or the cost of upgrading EPC ratings. We suggest the scope and cost cap is reviewed.

Corporate interest restriction

It is very common for banks and other third-party lenders to require some form of guarantee to lend to housing developers, given the relatively high level of risk inherent in development activities. For SME housebuilders and developers, the related party guarantee rules under the corporate interest restriction for corporation tax adversely affect project viability in a way that appears inconsistent with the policy intent.

Residential property development tax

Given the nature of property development, profit recognition from residential development tends to be ‘lumpy’ with early year losses and higher profits recognised at the end of the project. Falling within and outside the scope of residential property developer tax adds significant complexity for SME developers. We suggest HMRC’s data is reviewed to evaluate the extent of this issue for SME developers and how it might be addressed.

Affordable housing: VAT

The submission explores the way current VAT law creates significant inefficiencies and delays in the delivery of affordable housing. We suggest a simplification of VAT law by expanding the scope of zero-rating to include the supply of affordable housing sites to housing associations in order to address this issue.

ATED simplification

Currently, multiple annual tax on enveloped dwellings (ATED) returns are required for housebuilders and property developer groups, even where no tax liability arises due to property developers’ relief or relief for property rental businesses. The ability to make a group ATED return would reduce the administrative burden.

The CIOT submission is available to view here: www.tax.org.uk/ref1538

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