# UK housing market at risk as Chancellor's tax plans threaten stability



Chancellor Rachel Reeves faces a strategic crossroads in her approach to the UK housing market as she seeks to raise an additional £30 billion in tax revenues or spending cuts in the upcoming Budget. Among the ideas circulating within the Treasury is increasing taxes on high-priced homes, targeting wealthier homeowners in an attempt to balance the books. However, evidence suggests this course of action may backfire, weakening the housing market and paradoxically leading to lower tax revenues.

The upper-tier property market, especially in London, is already showing signs of strain. According to data predating the recent tax speculation, prime central London has seen a significant slowdown, with a third fewer transactions and roughly 80% of homes selling below their asking prices, often at discounts averaging nearly 9%. The top-end of the market has experienced a 3.6% fall in selling prices year-on-year, a trend largely attributed to the departure of non-domiciled residents following changes to tax and residency regulations earlier this year. Anecdotal reports suggest some wealthy UK families have moved their purchasing power to more prosperous outer London areas such as Chiswick, Putney, and Richmond, where the market conditions are relatively softer.

While the exodus of around 75,000 non-doms has had localized effects, it is dwarfed by the broader population of affluent UK taxpayers—6.7 million households in the richest ten percent, holding an average wealth of over £1.2 million. Any move by the Chancellor to impose extra taxes on homes valued over £1 million could depress the top-end property market nationwide, with potentially wider economic consequences. The housing market plays a crucial role in shaping consumer confidence through the "wealth effect," where rising home values boost owner spending on goods and services, stimulating the economy. Conversely, a slump in property prices tends to depress spending and can trigger negative equity among recent buyers, damaging both social stability and economic vitality.

Current market data corroborates the fragile state of UK property. Halifax reports a mere 1.3% rise in house prices over the year to September 2025—the slowest increase since April 2024—and prices even declined month-on-month by 0.3%, contradicting economists' expectations of growth. This slowdown is attributed to economic uncertainty, borrowing costs, and widespread fear of prospective tax hikes. London recorded a minimal annual price growth of 0.6%, while regions like Northern Ireland showed stronger gains, highlighting persistent regional disparities. The stamp duty hike in April 2025, coupled with rumours about new taxes targeting properties over £500,000 and capital gains tax extensions to main residences, has further suppressed high-end sales, with demand for properties over £1 million dropping by 11%.

Financial experts have sounded warnings about the proposed tax reforms. For example, Coventry Building Society points out that replacing buyers' stamp duty with a seller's tax on homes above £500,000, instituting stamp duty instalment payments, imposing capital gains tax on primary residences, and expanding National Insurance contributions on rental income could constrict market mobility. Such measures might discourage owners—especially wealthier ones—from selling, reducing the available housing stock for first-time buyers and potentially hiking rents as landlords pass on increased costs. The ripple effects could particularly harm younger generations striving to enter the market, undermining intergenerational support mechanisms like the "Bank of Mum and Dad," which helped over half of first-time buyers with substantial financial assistance last year.

Despite these challenges, some market observers remain cautiously optimistic. Mortgage lender Nationwide projects a 2-4% house price increase in 2025, buoyed by expectations of lower interest rates and rising incomes that may ease affordability pressures. Meanwhile, the Bank of England's anticipated rate cuts—potentially lowering the base rate to 3.75% by year-end—could further support the housing market and aid first-time buyers. Nonetheless, these positive signs compete with ongoing concerns about more stringent taxation and the lingering effects of prolonged economic uncertainty.

The government’s recent overhaul of the tax treatment of non-domiciled individuals underlines its broader aim to create a more equitable tax system by replacing domicile-based reliefs with a residence-based regime. These changes, effective from April 2025, are designed to attract talent and investment but have already contributed to shifts in London’s luxury housing market dynamics. The full impacts of these reforms on property values and economic growth remain uncertain but warrant close scrutiny as Chancellor Reeves formulates her fiscal strategy.

In sum, the evidence suggests that aggressive taxation of high-value homes risks destabilising the upper segments of the housing market. Given the interconnectedness of property prices, consumer confidence, and economic growth, policymakers face a delicate balancing act. While the government’s need to increase revenues is clear, moves perceived as punitive to property owners could ultimately undermine the very fiscal objectives they aim to achieve. As the housing market remains fragile, the Chancellor would do well to tread cautiously, for a market crash could reduce tax receipts rather than bolster them.

### 📌 Reference Map:

* Paragraph 1 – [[1]](https://www.dailymail.co.uk/money/comment/article-15183053/HAMISH-MCRAE-Tax-homes-peril-Chancellor.html?ns_mchannel=rss&ns_campaign=1490&ito=1490), [[4]](https://moneyweek.com/investments/house-prices/halifax-house-prices-fell-tax-hike-fears)
* Paragraph 2 – [[1]](https://www.dailymail.co.uk/money/comment/article-15183053/HAMISH-MCRAE-Tax-homes-peril-Chancellor.html?ns_mchannel=rss&ns_campaign=1490&ito=1490), [[7]](https://www.gov.uk/government/publications/2024-non-uk-domiciled-individuals-policy-summary/changes-to-the-taxation-of-non-uk-domiciled-individuals?os=app&ref=app)
* Paragraph 3 – [[1]](https://www.dailymail.co.uk/money/comment/article-15183053/HAMISH-MCRAE-Tax-homes-peril-Chancellor.html?ns_mchannel=rss&ns_campaign=1490&ito=1490), [[4]](https://moneyweek.com/investments/house-prices/halifax-house-prices-fell-tax-hike-fears), [[2]](https://www.reuters.com/world/uk/uk-house-prices-rise-by-least-since-april-2024-halifax-says-2025-10-07/)
* Paragraph 4 – [[3]](https://moneyweek.com/investments/property/property-tax-changes-rachel-reeves-budget-backfire), [[1]](https://www.dailymail.co.uk/money/comment/article-15183053/HAMISH-MCRAE-Tax-homes-peril-Chancellor.html?ns_mchannel=rss&ns_campaign=1490&ito=1490)
* Paragraph 5 – [[2]](https://www.reuters.com/world/uk/uk-house-prices-rise-by-least-since-april-2024-halifax-says-2025-10-07/), [[4]](https://moneyweek.com/investments/house-prices/halifax-house-prices-fell-tax-hike-fears), [[3]](https://moneyweek.com/investments/property/property-tax-changes-rachel-reeves-budget-backfire)
* Paragraph 6 – [[5]](https://www.reuters.com/world/uk/uk-house-prices-likely-rise-by-2-4-2025-nationwide-says-2024-12-16/), [[6]](https://www.reuters.com/world/uk/uk-home-prices-rise-35-this-year-bank-england-continue-cutting-bank-rate-2025-02-25/)
* Paragraph 7 – [[7]](https://www.gov.uk/government/publications/2024-non-uk-domiciled-individuals-policy-summary/changes-to-the-taxation-of-non-uk-domiciled-individuals?os=app&ref=app), [[1]](https://www.dailymail.co.uk/money/comment/article-15183053/HAMISH-MCRAE-Tax-homes-peril-Chancellor.html?ns_mchannel=rss&ns_campaign=1490&ito=1490)
* Paragraph 8 – [[1]](https://www.dailymail.co.uk/money/comment/article-15183053/HAMISH-MCRAE-Tax-homes-peril-Chancellor.html?ns_mchannel=rss&ns_campaign=1490&ito=1490), [[3]](https://moneyweek.com/investments/property/property-tax-changes-rachel-reeves-budget-backfire), [[2]](https://www.reuters.com/world/uk/uk-house-prices-rise-by-least-since-april-2024-halifax-says-2025-10-07/)

Source: [Noah Wire Services](https://www.noahwire.com)

## Bibliography

1. <https://www.dailymail.co.uk/money/comment/article-15183053/HAMISH-MCRAE-Tax-homes-peril-Chancellor.html?ns_mchannel=rss&ns_campaign=1490&ito=1490> - Please view link - unable to able to access data
2. <https://www.reuters.com/world/uk/uk-house-prices-rise-by-least-since-april-2024-halifax-says-2025-10-07/> - According to Halifax, UK house prices rose by just 1.3% in the year to September 2025—the slowest increase since April 2024. Prices also declined month-on-month by 0.3%, countering economists' predictions of a 0.2% monthly gain and a 2.2% annual rise. This softening in growth contrasts with stronger performance in the second half of 2024, when annual increases were between 4% and 5%. The market slowdown is attributed to economic uncertainty, concerns over potential property tax increases, and high borrowing costs. Finance Minister Rachel Reeves is expected to unveil tax changes in her upcoming budget, adding to market caution. Regional disparities persist, with London registering a modest 0.6% annual increase while Northern Ireland saw the strongest growth at 6.5%. Despite the subdued figures, Halifax's head of mortgages, Amanda Bryden, maintained expectations for modest growth due to improving affordability. Meanwhile, Capital Economics warned that tax rises could reduce disposable income and further impact housing demand. Rival lender Nationwide previously reported a 0.5% price rise in September and a 2.2% annual increase, indicating mixed signals in the housing market.
3. <https://moneyweek.com/investments/property/property-tax-changes-rachel-reeves-budget-backfire> - Chancellor Rachel Reeves is considering property tax reforms aimed at wealthier homeowners and landlords in the upcoming budget, but experts warn they could inadvertently harm first-time buyers. Coventry Building Society cautions that proposed changes—such as replacing stamp duty for buyers with a seller's tax on homes over £500,000, introducing stamp duty instalments, adding capital gains tax (CGT) on main residences, and expanding National Insurance to rental income—may restrict property movement and affordability. These reforms could discourage owners, especially wealthy ones, from selling, reducing housing availability for new buyers. While removing upfront stamp duty could seem beneficial, it might lead to fewer homes on the market. Paying stamp duty in instalments might ease initial costs but increase ongoing financial strain. Introducing CGT on primary homes may deter downsizing, limiting intergenerational financial support like the "Bank of Mum and Dad," which assisted over half of first-time buyers last year with an average of £55,572. Moreover, taxing rental income could drive up rents as landlords pass on costs or exit the market, exacerbating challenges for those saving for deposits. Experts urge caution to prevent unintended consequences for those most in need of support.
4. <https://moneyweek.com/investments/house-prices/halifax-house-prices-fell-tax-hike-fears> - UK house prices saw a slight decline of 0.3% in September 2025, bringing the average price down to £298,184, according to Halifax data. This follows a modest rise in August and reflects a broadly stable market amid economic uncertainty. Annual price growth dipped to 1.3%—its lowest since April 2024. The quarterly trend, however, showed a slight 0.4% increase. Market activity remains subdued, partly due to fallout from an April 2025 stamp duty hike and fresh rumours of further tax reforms in the upcoming Autumn Budget. These speculations include replacing stamp duty with a new tax on homes over £500,000 and potentially extending capital gains tax to primary residences. Such uncertainty has dampened higher-end property sales, with demand for homes over £1 million dropping by 11%. Regionally, Northern Ireland leads annual growth at 6.5%, with strong performance also seen in the North East and Scotland. Conversely, the South West saw a 0.2% annual decrease, the lowest in the UK. London remains the most expensive region, with an average price of £543,497, though growth there has been minimal at 0.6%.
5. <https://www.reuters.com/world/uk/uk-house-prices-likely-rise-by-2-4-2025-nationwide-says-2024-12-16/> - British house prices are projected to rise by 2%-4% in 2025, as per mortgage lender Nationwide. This increase is anticipated despite upcoming home purchase tax hikes set for April. Lower interest rates and higher earnings will alleviate affordability constraints, contributing to the market's gradual strengthening, according to Nationwide's chief economist, Robert Gardner. Changes to UK stamp duty will introduce some volatility, prompting a surge in transactions before the additional tax takes effect, followed by reduced activity for up to six months. New stamp duty rules will see first-time buyers paying tax on properties costing 300,000 pounds and others from 125,000 pounds, with a higher surcharge for second homes.
6. <https://www.reuters.com/world/uk/uk-home-prices-rise-35-this-year-bank-england-continue-cutting-bank-rate-2025-02-25/> - British home prices are expected to increase by 3.5% in 2025, exceeding previous projections, though rental costs are anticipated to rise even faster due to high demand and limited supply. The Bank of England is predicted to cut interest rates by 75 basis points to 3.75% by the end of the year, which could support the housing market and improve purchasing affordability for first-time buyers. London home prices are projected to grow by 3.0% in 2025 and 4.0% in 2026, while nationally-rents will rise by similar percentages. The imbalance between supply and demand is more pronounced in the rental market, while the sales market faces constraints from higher taxation and economic conditions. The Labour government's housing plans and new legislation may impact the rental market further. Inflation predictions have been raised, with economists expecting inflation to average 2.8% this year, pushing the Bank of England to maintain a cautious approach to rate cuts. Economic growth forecasts for the UK have been slightly downgraded, predicting expansions of 1.1% in 2025 and 1.4% in 2026.
7. <https://www.gov.uk/government/publications/2024-non-uk-domiciled-individuals-policy-summary/changes-to-the-taxation-of-non-uk-domiciled-individuals?os=app&ref=app> - The UK government is committed to addressing unfairness in the tax system by removing the outdated concept of domicile status and implementing a new residence-based regime focused on attracting the best talent and investment to the UK. From 6 April 2025, the government will remove preferential tax treatment based on domicile status for all new foreign income and gains that arise. To replace the remittance basis of tax, the government will introduce an internationally competitive residence-based regime, providing 100% relief on foreign income and gains for new arrivals to the UK in their first four years of tax residence, provided they have not been UK tax resident in any of the 10 consecutive years prior to their arrival. The government intends to conduct a review of offshore anti-avoidance legislation, including the Transfer of Assets Abroad and Settlements legislation, to modernise the rules and ensure they are fit for purpose. Further details on the review will be provided in due course. It is not anticipated that this review will result in any changes before the start of the 2026/27 tax year.