8. A strategy for introducing a system of land value tax in Britain

Obviously, moving to a system of land value tax and allowing it to displace other taxes will cause some disruption. But much can be done to ease the transition. The important thing is to get the process started, so that society, rather than landowners, begins to benefit from the land value that society itself creates, and advantage taken of its profound economic benefits.

Completing the registration of land

The first task would be to complete the registration of land still not registered, which is mainly that owned by big wealthy landowners. This would be the responsibility of the Land Registry, first established in 1925. The process could be accelerated by requiring owners of unregistered land to register it by a certain date, after which local authorities could be given the power to lease out any unregistered land. Meanwhile, the steps required for introducing LVT could go ahead anyway.

Setting up a system for valuing land

The first step would be to set up a system to value all land using methods that are already available. As noted earlier, once the system of land valuation was up and running, it would be relatively easy to update land values more or less continuously. This is desirable since land values can fluctuate considerably for the reasons already given (see Section 4).

Apart from certain industrial sites occupying a large area, or other specialised sites, it would not be necessary to value every site individually. Using modern computerised techniques, it would be possible for most land to be placed in bands of similar value per hectare (or square metre) in a 'land-value-scape', as described in Section 4, so that once the area of a site is known, its value can easily be ascertained, which would be in the public domain.

This would not only have the advantage of reducing the costs of valuation. It would also reduce the costs of appeals against valuation decisions, because such appeals would mainly be confined to sites close to the border between two different bands. This is born out by the current system of local taxation. Thus, the cost of appeals against valuations for the council tax, for which properties are placed in bands, is fairly trivial in relation to the number of properties. But for the national non-domestic rates, for which properties are assessed individually, the cost of appeals is considerable – indeed, some four times the cost of producing the ratings lists in the first place.

However, for the purposes of LVT, it would be desirable to expand the number of bands considerably beyond the number used for council tax purposes.

How best to introduce LVT

Next, how best to introduce LVT would need to be decided. On balance, it would make sense to introduce LVT gradually, which would allow time for the economy to adapt to the new system of taxation.

The disadvantage of a more gradual approach is that it would give a chance for vested interests, such as big landowners, to mount a campaign against LVT before its beneficial effects had begun to be realised. It would be up to the government, and hopefully opposition parties, to face down such a campaign, and be resolute in demonstrating the very real economic and social benefits of LVT, pointing out that LVT is not strictly a tax in the normal sense, but, in effect, a payment to the community for the space one occupies, and therefore much fairer than some of the other taxes that it is seeking to replace.

The most obvious starting point for introducing LVT in Britain would be to use it to replace the much-discredited council tax, and the system of national non-domestic rates – and perhaps also the stamp duty land tax.

After that, the next step, logically, would be to extend it gradually to replace central government grants going to local authorities which, currently, on average, account for nearly half the revenue of local authorities. This would be a first step towards substituting LVT for income tax – which, in effect, is what funds central government grants going to local authorities.

It would be important to reduce other taxes pro rata as LVT was extended beyond local level, and as the rate of LVT was raised, so that LVT would be seen genuinely as a replacement tax, and not an additional tax burden.

Measures to ease the transition

Since economies, as well as land use, tend to evolve alongside prevailing tax structures, it is inevitable that the process of replacing existing taxes with LVT will give rise to winners and losers. There will therefore need to be a number of transitional arrangements.

Of major concern during the transition period would be the extent to which LVT would penalise those living in areas where the value of their properties had increased sharply over the years (due to rising land values), while their incomes had not grown proportionately, or perhaps had gone into decline if they had become pensioners or unemployed, or had been widowed. This could also apply to established businesses. The problem could be mitigated in a number of ways.

First, people – and also businesses – could simply choose to increase the occupation of the premises, for example, by taking in lodgers or sub-letting. Alternatively, they could move to smaller properties or to areas where land values were lower. This, indeed, is one of the long-term objects of LVT – to encourage the more efficient use of the land that is available.

Second, for residential properties, pensioners and others with low incomes could be allowed to defer (or roll over) the payment of LVT, either wholly or in part, until the property was sold or transferred. This would enable people to carry on living in their properties at no extra cost, and, if they so chose, to pay less tax than they do now.

However, it is only fair that the tax plus interest should be paid eventually, because the increased value of their properties – or more precisely, the value of the land on which their properties stand – would have been created by the activities of the community as a whole, and not by those who happen to occupy the particular site. Meanwhile, local authorities could obtain the revenue that they otherwise would have received from low cost loans, using as collateral the stream of income that they would eventually receive.

A third suggestion has been to introduce a 'home allowance' for main residences (similar to the personal allowance on income tax), which would act as a threshold before LVT was levied. This, it is claimed, would help ease the tax burden of people on low incomes.

However, the problem here is that since the LVT levied would be lower than otherwise, this would have the effect of raising the land value of the site, so that more tax would be paid, which could more or less neutralise the effect of the 'home allowance'. Furthermore, because the effective rate of LVT would be lower, this will tend to make property prices higher than they otherwise would be, so that people would lose out when seeking to acquire a new property. (And it would defeat one of the objects of LVT, which is to minimise the price of land in order to maximise investment on the land, and in the economy at large.)

Far better would be to address the issue of low incomes directly, for example, by arranging for those on very low incomes to receive something like the current council tax benefit – at least until wages and pensions have been raised sufficiently for people to be able to afford their various outlays, including LVT.

The continuing role of planning regulations

Planning regulations would continue to work alongside a system of LVT. It is sometimes suggested that LVT would lead to increased urban sprawl as people and businesses sought areas on the outskirts of towns with lower land values in order to save money. However, planning regulations, preferably with greater transparency than now (including bringing the newly centralised planning authority under democratic control), would prevent that.

Furthermore, there may be instances when the local community might, for one reason or another, want to preserve the productive activities of certain businesses in the neighbourhood, for good social reasons. If located where land values are high, perhaps in the centre of towns, it is likely that some businesses might lose out to those better able to afford the LVT levied on the site, which would be a loss to the community.

However, this could be prevented simply by placing restrictions on how a particular site was used, through the planning system. This would reduce land values in these particular cases, and therefore their liability for LVT. Similarly, parks and open spaces, including school sports fields, could be exempted from LVT because planning regulations would, in effect, reduce their land value to zero.

Should a land value tax be local or national?

So far it has been assumed that local authorities would collect the bulk of LVT, at least in the first instance. However, if it remained local, this could give rise to a number of problems, not least the tendency to perpetuate the considerable inequalities that exist right now among different localities, especially if local authorities were free to set their own rate of tax.

In particular, there are huge variations in the costs of services that different local authorities have to provide – related to such things as the age structure of populations and the number of people on low incomes in the different localities – and therefore variations in the amount of revenue that they need to collect. Furthermore, many areas with high land values have large concentrations of poor people, who, perversely, might find themselves having to pay more LVT compared with more affluent areas, where land values are lower. Moreover, many poor people live in badly rundown areas, where the amount of LVT collected would be insufficient for the investment in public services and in other economic activities required in order to meet people's needs, and to regenerate the area.

Then there is the issue that land values are not only, or even primarily, generated locally. The higher land values in many large towns and cities, notably London, derive not only from their citizens' own efforts and resources, but also from the economic activities taking place far beyond, perhaps in the nation as a whole, or even in other countries. The land value that these activities generate, therefore, cannot be said to belong solely to the inhabitants of those towns or cities.

In short, if LVT were collected only locally, some local authorities would be in a position to raise the revenue that they require from a relatively low rate of tax, while others, say, in the hinterland of large towns or cities, or beyond, where land values are low, might find themselves having to set a higher rate of LVT in order to obtain the revenue that they require, because they would receive nothing for the contributions that their citizens make towards raising land values in the nearby towns and cities.

A way out of such problems would be for central government to set the rate of LVT nationally, and for all revenues from LVT to be pooled centrally, which would then be redistributed back to local authorities, partly on a per capita basis, and partly according to assessed needs. This is roughly the system now. Thus, the revenue from national non-domestic rates is pooled centrally and redistributed on a per capita basis, while the various central government support grants, which make up around half of local authority revenue, are distributed more or less on the basis of need. Only the council tax element of local authority finance, together with the fees charged for various local services, which account for around a quarter of local authority revenue, is decided locally, and even that is governed to some extent by rules set by central government.

A disadvantage of a centrally controlled scheme for LVT – in which both the rate of LVT, and how the proceeds of LVT are allocated to local authorities, is decided centrally – is that it would, in effect, divorce the collection of LVT from the services provided by local authorities. This, arguably, would undermine the relationship and accountability of local politicians to their constituents, representing a 'democratic deficit'. Indeed, this is very much one of the criticisms levelled at the current system of local authority finance, in which some 75 per cent of revenue derives from central government, either directly, or through the redistribution of the national non-domestic rates.

However, under such a centrally controlled system, local politicians would still largely be responsible for how the funds at their disposal are spent, for which they would be answerable to their constituents, so to that extent democracy would prevail. Furthermore, local politicians, acting on behalf of the citizens whom they represent, would always be able to lobby central government agencies for more funds for particular purposes, under the various formulae and rules devised for deciding how the revenue from LVT is allocated. This could be made more democratic through the creation of an independent appeals body comprising elected representatives of local authorities.

In short, provided the system and rules for redistributing LVT back to the local areas are reasonably transparent, it is a bit of an exaggeration to claim that the centralised system of LVT as proposed here would result in a 'democratic deficit'. In any case, surely, reducing the current inequalities among different neighbourhoods and localities is also a democratic issue, which only a more or less centralised system can address.

Over time, once those inequalities have been ironed out reasonably, it is possible that more power can be given to local authorities to set a rate of LVT to cover their expenditure. Meanwhile, as LVT increasingly replaced income tax and other taxes that finance central government expenditure, setting the main rate of LVT would, obviously, have to be the prerogative of central government – or more appropriately Parliament, to which the central government is accountable.

If this system is eventually adopted, it would mean that, once the land value of a particular site is determined, a certain percentage rate of LVT would go to local authorities, which would be set by local councils, and another, perhaps somewhat larger, percentage would go to central government, and would be set by central government.

Getting the argument across

It is all very well to argue in theory that society as a whole should benefit from the rising land values that society itself creates, rather than just the individuals who happen to own or occupy particular sites, and who are not responsible at all for their rising values. But winning over people and governments to a policy to achieve those ends through a system of land value tax, has a number of difficulties to overcome.

First, how land acquires value independently of the value of buildings or productive activities based on the land is not immediately obvious. It should, of course, be part of the geography curriculum in schools, but rarely is. Even economics courses in universities, and the economics textbooks that they use, do not normally cover this issue.

Similarly, although many articles have appeared in the press recently on house price inflation, few have shown any understanding that this is due almost entirely to rising land values, since buildings tend to decline in value over time due to wear and tear, and obsolescence. This confusion is not helped by the legal definition of land, which, unlike the economic definition, includes buildings on the land.

Furthermore, a land value tax in the public mind is often confused with other types of land tax – notably land development taxes under various guises that have been introduced by governments from time to time, and then abandoned because of their problems. As explained previously (Section 5), such taxes, more often than not, have had a negative impact on land use and on the economy. This has helped to give any tax on land a bad name.

Then there is the perceived difficulty of valuing land. It needs to be understood, as discussed in Section 4, that it is easier to value land than to value buildings, particularly with the availability of modern information technology. It is also fair to point out that in spite of the greater difficulty of valuing buildings, this has not deterred governments from imposing taxes on property (that is the buildings together with the land on which they stand) – and the general public has more or less accepted such taxes (albeit, perhaps, as a necessary evil).

The task for supporters of LVT is to convince people to have trust in the system of land valuation, and that taxing land values is a matter of natural justice, and fairer than most other forms of taxation.

Finally, people need to be persuaded that they will be better off under a system of LVT. The trouble here is that some of the benefits of LVT take time to be realised. For example, the incentive that LVT gives to developing sites to their full potential, thus creating jobs and homes, will not happen overnight. Moreover, much would depend on other economic policies, and developments taking place in the global economy.

Meanwhile, it needs to be ensured that LVT is genuinely a replacement tax and that for most people, when LVT is introduced, there would be a noticeable reduction in other taxes.

Addressing concerns about the effect of LVT on property prices

Since some 70 per cent of Britain's population are either homeowners who own the freehold of the land upon which their homes stand, or have a vested interest in owner-occupied properties as heirs, how LVT might affect property prices is an important issue, both for the general public and for governments thinking about introducing LVT.

First, if, as recommended here, LVT was introduced initially simply as a replacement for existing property taxes – namely, the council tax for domestic properties and the national non-domestic rates for commercial – it would have little or no effect on property prices. That is because those existing taxes would already have had the effect of making property prices lower than they otherwise would be. However, it is true that once LVT was extended beyond that, so that it began to replace other taxes, this would tend to reduce land and property prices.

But, as explained already (see Section 4), this would be offset by the increasing land values due to economic growth, which LVT would tend to enhance. Besides, over the period during which LVT would be gradually extended, as proposed here, property prices would likely be much more affected by other factors – in particular the availability of credit, and the performance of the economy as a whole, including the international economy. This would tend to mask any effect LVT would have on property prices.

Counteracting propaganda against LVT

The downside of introducing LVT gradually or in stages is that it would allow time for powerful opponents of LVT with considerable financial resources and political clout, such as big landowners and their allies in the media, to mount a damaging propaganda campaign against LVT. Once introduced, they would likely use any excuse or economic setback to denigrate LVT, and to argue against its extension (which is what would be needed for its full fruits to be realised), never mind that such events had nothing to do with LVT.

A government seeking to introduce LVT, therefore, would have to be prepared to face down such opponents, exposing their vested interests – perhaps making use of the arguments advanced in this pamphlet!

The point is that even capitalists would gain from a land value tax – even big landowners if they sold their land and invested the proceeds in other productive activities. The only exception would be those engaged in land speculation.

Conclusion

As shown here, and as is evident from other countries that have implemented some form of LVT, the benefits of LVT are overwhelming. Not only does it have huge revenue earning potential for governments to pay for infrastructure and public services upon which the rest of the economy depends, but also it has a major positive impact on economic development, first because it stimulates investment, and second, because it enables other taxes that have a harmful effect on the economy to be reduced or eliminated.

Once people and governments have been won over, experience from other countries shows that the actual mechanics of introducing LVT is relatively simple. But first people and governments have to be won over – hopefully through a concerted all-party campaign across the political spectrum, since the social and economic benefits of LVT cut across economic systems and political ideologies.

Summary of proposals for a new fairer tax system

1. **Abolish the council tax, stamp duty land tax, and the system of national non-domestic rates and replace with a system of land value tax.**

2. **Phase out income tax at the standard rate, and gradually raise the rate of land value tax to compensate.**

3. **Retain an income tax or surtax for very high earners.**

4. **Continue to fund recurrent expenditure on pensions and healthcare through employee and employer contributions, but paid into a National Pension Fund and National Health Fund, respectively, managed by statutory authorities under democratic control, independent of the government of the day.**

5. **Retain the corporation tax or a profits tax beyond a certain threshold, eventually, raising the rate of tax in steps to 50 per cent (once governments have been persuaded to abandon the prevailing neo-liberal economic policies).**

6. **Abolish value added tax and excise duties, and replace with a simple sales tax extended to all products, but at varying rates according to the product, which, in addition to raising revenue, would be geared to achieving various other policy objectives.**