A STRATEGY FOR REPLACING COUNCIL TAX AND BUSINESS RATES WITH A LAND VALUE TAX: A FIRST STEP TOWARDS A MORE EQUITABLE TAX SYSTEM

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This paper makes the case for introducing an annual Land Value Tax (LVT), payable by landowners, to replace Council Tax and Business Rates as the first step towards abolishing or reducing other taxes that have adverse social or economic consequences. In the first instance, it is recommended that land used for generating an income should be treated differently from that which is merely part of a person's home. For principal owner-occupied residential properties, it is proposed that the average rate of LVT be set at approximately 0.85 per cent of capital value, such that each local authority would collect comparable revenue to that currently collected by Council Tax. For commercial and industrial properties, it is proposed that the rate of LVT be set at approximately 3 per cent of capital value, such that it collected the same amount of revenue as that currently collected by Business Rates. It is proposed that the higher (or standard) rate of 3 per cent also be applied to rented residential properties – payable not by the occupier, but by the landowner, on the grounds that it is land capable of generating an income – as well as agricultural land, brownfield sites, and land banks in order to encourage the development of such land (subject to planning consent). Furthermore, it is argued that owners of second homes be charged the higher rate of 3 per cent in order to reduce the bidding up of land prices to the disadvantage of the local population. In addition to the concessionary rate of tax for owner-occupied sites, other schemes for easing the burden of paying LVT for households are discussed. Finally, it is recommended that the concessionary rate of LVT for owner-occupiers during a transition period of, say, 10-20 years, be gradually raised to the standard rate (at the same time reducing other taxes, such as Value Added Tax (VAT), and by raising the threshold for Income Tax), such that – other things being equal – the market price of residential sites in real terms would decline, over time, thus reducing the cost of the land element in house purchases, making homes more affordable. An Appendix refutes a number of misconceptions concerning LVT.

There are powerful economic and social arguments for taxing land values.[2] It shifts the burden of taxation away from earned income. It captures economic rent from land for public purposes instead of going to private landowners and banks as unearned income – in effect, returning to society the value of land that society itself creates.[3] Furthermore, it favours more investment going into production, including the construction of new homes – desperately needed to solve the current housing crisis – instead of merely inflating the prices of land and property. Speculation in land and property would be eliminated, because leaving land idle or properties empty in the expectation that they might fetch a higher price later would make no sense, since LVT would have to be paid at the going rate according to optimal permitted use. Taxing land values also benefits the environment because it stimulates the development of brownfield sites and land

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[2] In fact, a tax on land values should not be regarded as a tax at all, but more a payment for actual benefits received, just as the charge for a parking space is a payment for a benefit (Henry Law, 'How might LVT be introduced?', Land Value Tax Campaign, 7 May 2010.)

[3] Economic rent, as distinct from the everyday meaning of rent, is the excess income arising from ownership of an asset (or excess payment for an asset, product or service) whose main characteristic is that its supply is fixed but for which there is great or growing economic demand. Land is by far the most important area economically where this applies.

occupied by derelict buildings. By making better use of land in towns and cities, it would help to reduce urban sprawl and the need to encroach on the Green Belt. Finally, a tax on land values is cheap to collect and has low costs of compliance, and, unlike most other taxes, it is impossible to evade through dubious accounting devices. Land cannot be hidden in offshore tax havens.

All property taxes contain a land element that is being taxed, but, as will be explained, taxing land separately from any structures on the land has advantages. The two main forms of property tax in Britain at present are Council Tax for domestic properties, and the Business Rates (also known as the National Non-Domestic Rates) for commercial and industrial properties.

Each of those taxes has major shortcomings. This paper makes the case for replacing them with a Land Value Tax (LVT), which is an annual tax on land according to its value, disregarding the value of any buildings or other structures on the site, and payable by the owner of a site, not the occupier if not the owner.

It should be emphasised that LVT is quite distinct from a development land tax with which it is sometimes confused. A development land tax – which was introduced by Labour on three occasions under different guises, only to be abolished later by incoming Conservative governments – is a tax on the uplifted value of a site following a change in planning consent. It has quite different economic and behavioural consequences. In particular, a development land tax tends to delay the development of a site, rather than accelerate it, as is the case with LVT.[4]

In fact two development land taxes still exist in the form of Section 106 Agreements and the Community Infrastructure Levy. In addition, there is Stamp Duty Land Tax, which, in spite of its name, is not a land tax, but a transaction tax charged on properties over a certain value when they are sold. Furthermore, a new property tax, the Annual Tax on Enveloped Dwellings, was introduced in 2013, which is payable by companies and corporate bodies that own high value residential properties. As will be discussed, each of those taxes has significant disadvantages, and, following the introduction of LVT, they would become unnecessary and could be gradually phased out, or abolished immediately.

In this paper, the proposal is to replace Council Tax and Business Rates with LVT payable by the landowner on a revenue neutral basis. This, it is argued, would be a first step towards replacing or reducing other taxes that have adverse social or economic consequences.

A carefully worked out strategy is required because of the need to protect the majority of ordinary homeowners who have become small-scale landowners as a result of purchasing their homes (which includes the land they stand on). That applies especially to those locked into mortgages which take up a major proportion of their income. ***Thus, it is proposed that land that is essentially a part of consumption – mainly owner-occupied residential land – be treated differently from land used to generate an income.*** In the first instance, therefore, the case is made for setting the rate of LVT for the former at an average of 0.85 per cent of capital value (which is termed the 'concessionary rate'), and for the latter at approximately 3 per cent of capital value (which is termed the 'standard rate').[5] However, it is anticipated that over a period of, say, 10-20

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[4] See Jerry Jones, *Land Value … for Public Benefit*, Labour Land Campaign, 2008, Chapter 5; and V.H. Blundell, 'Labour's Flawed Land Acts 1947-1976' in Nicolaus Tideman (Ed.), *Land and Taxation*, Shepheard-Walwyn, London, 1994 – both available at www.labourland.org.

[5] Note that land value can be expressed either as capital value or as rental value, also known as the annual value. Sometimes it is more convenient to use the one, and sometimes the other. The two can be converted from one to the other via the prevailing discount rate. Thus, if the discount rate were 5 per cent, the capital value would be twenty times the rental value. And a rate of LVT for rental value would be twenty times that for capital value. In the examples given, a rate of 3 per cent of capital value would be equivalent to 60

years, the different rates would gradually converge as other taxes, such as VAT and Income Tax are reduced, in order to realise the full economic benefits of LVT.

Before discussing those issues in more detail, the Council Tax and Business Rates systems are described, along with some of their associated problems.

Council Tax

Council Tax is payable to local authorities by the occupiers of residential properties. On average, it accounts for around 25 per cent of local government revenue, and is the main source of funding that is under the control of local authorities. Apart from fees charged for certain services, the rest of their revenue comes from central government in the form of direct grants (accounting for around 45 per cent of revenue), and the Business Rates levied on commercial properties that is redistributed back to local authorities on a per capita basis (accounting for around 22 per cent).[6] The total revenue from Council Tax is currently approximately £27 billion, accounting for about 4.6 per cent of total tax receipts.

Council Tax, introduced in 1991, is half a property tax – which incorporates a land element – and half a personal tax. This reflects its origin as a replacement for the deeply unpopular 'Community Charge' (actually a poll tax). It assumes a two-person household, which is why single occupants get a 25 per cent discount. In addition, relief is available for the low-paid through the means-tested Council Tax Reduction, also known as Council Tax Support.

For the purposes of collecting Council Tax, properties are divided by value into eight Bands in England and Scotland, and nine in Wales (which are different for each of the nations). In England and Scotland, values are based on property values in 1991. In Wales, they are based on a revaluation of properties, which took place in 2005.

The biggest problem with Council Tax is that it is severely regressive. The structure of the banding system and the difference between the levels of Council Tax paid in different Bands means that the rate of tax actually falls the greater the value of the property on which it is levied. For example, someone in a house worth £1 million in 1991 pays only twice the amount as someone living in a house worth £70,000, and only three times the tax paid by those in the poorest accommodation.

Furthermore, in England, for example, as one goes from Band A to Band H, the tax in relation to the property value goes down. Thus, people in Band A pay, on average, more than 2.1 per cent of their property value in tax; in Band B, it is 1.9-2.4 per cent; but for the top Band H, it is a maximum of 0.8 per cent, and can be very much less (because it includes all properties valued above £330,000 in 1991). On top of that, taxpayers in poorer Regions pay more in relation to the value of their properties than those in richer Regions: for Band D properties, for instance, it ranges from 1.05 per cent of property value for the North East to 0.5 per cent in the South East, and only 0.33 per cent in London. There are also marked variations within Regions.[7]

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per cent of rental value, and 0.85 per cent of capital value would be 17 per cent of rental value. In this paper, capital values are used throughout because they are the more familiar for the general public, including politicians. In the commercial world, people may be more familiar with rental values. The Valuation Office Agency, which would be responsible for actually measuring land values, could choose whichever was the more convenient, perhaps using the different measures as a crosscheck, but for residential land it would make sense for the result of the assessment to be expressed as capital values for the general public to better understand. Some advocates of LVT argue that only rental values should be used, but this is based on a number of misconceptions discussed later in the section, 'Common misconceptions about LVT'.

[6] Since 2013-14 a portion of NNDR is now retained by local authorities – see below.

[7] Andy Wightman, *A Land Value Tax for England: Fair, Efficient, Sustainable*, March 2013 (see www.andywightman.com/lvt)

The Burt Committee, charged with reviewing local government finance in Scotland, found that more bands would be better, but came out in favour of individual valuation of properties.[8] As will be discussed in due course, the problem with valuing properties individually is that it is more complicated and more costly than valuing land for the purposes of introducing LVT.

Meanwhile, following the introduction of the Council Tax Reduction scheme (which replaced the former relief scheme in April 2013), hundreds of thousands of low-paid people have become liable for Council Tax for the first time, as a result of the Coalition Government decision to cut by 10 per cent the amount available for relief and giving local authorities the power to set their own eligibility criteria. This was at a time when councils had already seen their funding from central government reduced by 40 per cent, and under pressure to cut budgets across the board. Thus, according to the Local Government Association, only 45 out of 326 councils continued to provide the same level of discount available under the old scheme. Council Tax arrears have now overtaken credit card debts as the biggest debt problem.[9]

Another problem with Council Tax is that a revaluation of properties is long overdue. Although Council Tax is based on relative values, over the last 25 years there will have been a major shift not only in absolute values, but also relative values. This means that the tax base has become severely distorted, with some people paying more than they should, and others less, because their houses are in the wrong Bands. But revaluation is a nettle that none of the political parties has had the courage to grasp for fear of the backlash from losers. And, of course, the longer it is delayed, the greater the problem.

If Council Tax, either in its present form, or in a modified form, is to be retained, there will eventually have to be a revaluation in order for it to be credible. (That is why regular valuations are necessary for all property taxes whatever their form so that any changes would be more gradual, and affect fewer households.) However, once a revaluation does come onto the agenda, this could provide the ideal opportunity for replacing Council Tax with the much more equitable Land Value Tax, as discussed below.

Business Rates

Business Rates are a tax levied on the occupiers of non-residential properties. Business Rates were transferred from local to national control in 1990. The rates are now set by central government (or the devolved administrations in Scotland and Wales). Business Rates currently collect approximately £26 billion, accounting for about 4.4 per cent of total tax receipts.

Businesses pay a proportion of the officially estimated market rent (the 'rateable value') of properties they occupy. In 2013-14, this proportion (with reduced rates for businesses with a low rateable value) was set at 47.1 per cent (after allowing for the small business rate relief scheme). In England, businesses with a rateable value below £18,000

[8] *A Fairer Way: Report by the Local Government Finance Review Committee* (Chairman: Sir Peter Burt), Edinburgh, 2006. A study undertaken by a team at Heriot-Watt University for the Joseph Rowntree Foundation also advocated a property tax, but linked with income so that it became a hybrid income and property tax. (See Chris Leishman, Glen Bramley, Mark Stephens, David Watkins and Gillian Young, *After the Council Tax: Impacts of Property Tax Reform on People, Places and House Prices* Joseph Rowntree Foundation, March 2014, and at www.jrf.org.uk.)

[9] 'Council tax becomes biggest debt problem', *Financial Times,* 16 February 2015. Even before the new system was introduced, the take-up for Council Tax Benefit was only around 70 per cent, so that many people, especially pensioners, lost out from not claiming their entitlement.

(£25,500 in London) are charged a reduced rate of 46.2 per cent.[10]

Various other reductions and exemptions exist, including for charities, small rural shops, agricultural land and buildings, and unoccupied buildings. Until 2013-14 tax year, the revenues from Business Rates were paid into a central pool, then redistributed back to local authorities on a per capita basis. However, under a new scheme, local authorities are now able to retain around half the revenue from rates raised from new developments, for a period of up to 10 years. This is designed to provide an incentive for local authorities to encourage developments in their area. For 2013-14, around 40 per cent of the revenue from Business Rates in England was earmarked for the scheme.[11]

The normal valuation cycle runs over a five year-period. Major changes in liabilities for Business Rates caused by revaluation are normally phased in through a transitional relief scheme. The latest revaluation took effect in April 2010, based on April 2008 rental values. The rates revaluation scheduled for 2015 has been delayed until 2017, the government citing a desire to avoid 'sharp changes' to rates bills.

However, even without the delay, the use of 2008 valuations are causing problems in some parts of the country, due to the differing effects of the economic downturn. Thus, in many Northern towns plummeting rental values have left many retailers paying twice as much as they should according to research carried out by the Local Data Company. On the other hand, those in London are benefiting from the delay, because rental values have increased by over 50 per cent in the same period.[12] It is another example of what happens when valuations for property and land taxes are delayed. In the case of Business Rates, this is related to the relatively high costs of valuing individual premises (because of their great diversity), and also the fact that valuations give rise to a considerable number of appeals.[13] As will be discussed, this problem could be resolved if Business Rates were replaced by a Land Value Tax.

Land Value Tax

The basic principle of a Land Value Tax (LVT) is that it returns to society the value of land, or economic rent, that society itself creates. As an economy develops, the demand for land in particular locations increases, but because the supply of land is fixed, its value tends to rise, and therefore its price. Without LVT, when land is privately owned it is the landowners who benefit without having contributed at all to the growth of the economy. They will be able to sell the land, or rent (or hire) it out, at a higher price than otherwise. This is equivalent to unearned income (or the appropriation of economic rent) at the expense of the rest of society. With LVT, society would receive that income, thus benefiting everybody.

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[10] Department of Communities and Local Government, *Statistical Release: National Non-Domestic Rates to be Collected by Local Authorities in England 2013-14*, February 2013.

[11] *Ibid*. However, it has been said that the complicated system of 'tariffs', 'top-ups', 'levies' and 'safety nets' might limit the rate at which revenue raised from such additional developments can benefit local authorities. Another recent development since 2010–11 is that English local authorities are permitted to levy a supplementary business rate to pay for economic development projects. Subject to certain restrictions, this supplementary rate can be levied at up to 2% on properties with a rateable value above £50,000. The first use of this additional revenue-raising power was by the Greater London Authority in 2010–11 to pay for the Crossrail project.

[12] 'Retailers in regions hit by business rate load', *Financial Times*, 26 September 2013.

[13] Thus, according to research by Tony Vickers, the Valuation Office Agency, which is responsible for the valuations, a few years back, was spending four times as much on contesting appeals against property assessments as it does on producing the ratings lists. (Tony Vickers, 'From Zee to Vee: Using Property Tax Assessment to Monitor the Economic Landscape', in Janet Milne, Kurt Deketelaere, Larry Kreiser, and Hope Ashiabor (Eds), *Critical Issues in Environmental Taxation: Volume I International and Comparative Perspectives*, Oxford University Press, Oxford, 2008; pp. 461-73 – based on a paper presented to the Global Environmental Taxation Conference, Woodstock, Vermont, 2002, also available at www.labourland.org.)

In Britain, it is the 200,000 or so families who continue to own some two-thirds of Britain's land by area, including some of the most valuable land in cities, who have benefited the most – at the expense of the rest of the population.[14] Over the years, or even centuries, they will have accumulated vast amounts of economic rent – from the sale of small parcels of land from time to time to property developers, or from renting (or hiring) out land to farmers, residential and commercial tenants, public bodies, and those involved in commercial and industrial activities – which, in the form of financial capital, they have been able to invest elsewhere. LVT would redress that gross economic injustice.

Small-scale landowners, especially people who have bought their own homes, also may benefit from economic rent. ***But the banks that lend the money to enable ordinary people to make such a commitment benefit much more.***

To take a concrete example, a 2-bedroom house in South West London bought for £5,000 in 1970 – approximately £60,000 in today's money – would now fetch well over £350,000. If it were sold at that price, that would represent a capital gain – roughly representing the accumulation of economic rent – of £290,000 since 1970. Of course, for an ordinary homeowner, if they were trading up, that money would disappear into the inflated price of a new property. If trading down, or if selling for cash, that would represent unearned income. If the homeowner had been on the 'property ladder' for a long time, the huge increase in value of the property (or more precisely the land on which it stands) would act as collateral for them to borrow more at a lower rate of interest for the consumption of other goods or services, such as the purchase of a car, or an expensive holiday – which, again, in effect, makes use of economic rent appropriated from the rest of society.

Had LVT been in place, and assuming it collected the full rental value of the site, the property today would fetch only £60,000 rather than £350,000, and society would have gained, more or less, the difference of £290,000 in the form of LVT (depending upon the precise pattern of changes in land value over that period of 45 years).

Meanwhile, in the absence of LVT, for the person buying the property today for £350,000 (instead of the £60,000 that would have been the price had the full amount of economic rent been collected through LVT)), assuming they had to take out a mortgage, and put down a 10 per cent deposit, the amount that would have to be borrowed, instead of £54,000, would be £315,000 – a difference of £261,000 (see Table 1). If that had to be repaid over 25 years, at an interest rate of 5 per cent, it would mean the bank would get in interest in today's money almost £240,000, instead of just over £40,000 had LVT been in place – a gain to the bank of £200,000 at the expense of the homeowner. If the homeowner had paid the same deposit of £35,000, leaving a mortgage of £25,000 payable over two years (Column 4, Table 1), the interest would only have come to about £1,300 compared with the nearly £240,000 the banks get when there is no LVT. Multiply those figures in Column 2 (Table 1) for the millions of transactions and households which have been through that process, and one gets a glimpse of the billions of pounds in economic rent that banks have accumulated over the years – at the expense of the rest of society. That in itself, surely, is an argument for introducing LVT as quickly as possible.

But the relevance of the above discussion to the present context is the enormous amount of revenue that could be collected for public purposes through LVT. And this would be without the deadweight losses characteristic of other taxes, since, as noted already, LVT tends to stimulate economic activity rather than hold it back. Some idea of the potential yield from LVT may be gleaned from the following.

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[14] Kevin Cahill, *Who Owns Britain: The Hidden Facts Behind Landownership in the UK and Ireland*, Canongate, Edinburgh, 2001.

Table 1 Interest paid to banks with and without LVT

(Based on two bedroom house bought for £5,000 in 1970 (£60,000 in 2012 prices), now worth £350,000)

	No LVT	With LVT	With LVT (£35,000 deposit)
Price	£350,000	£60,000	£60,000
Deposit	£35,000	£6,000	£35,000
Mortgage	£315,000	£54,000	£25,000
Mortgage period (yrs)	25	25	2
Interest rate	5%	5%	5%
Repayments per annum	£22,098	£3,788	£13,161
Total Repayments	£552,438	£94,704	£26,323
Plus deposit	£35,000	£6,000	£35,000
Total cost	£587,438	£100,704	£61,323
Total cost split 3 ways			
Building	£60,000	£60,000	£60,000
Land	£290,000	0	0
Interest	£237,438	£40,704	£1,323

First, consider residential land, which constitutes approximately 70 per cent of the value of Britain's land. According to a survey in 2013, the market value of privately owned residential property in Britain was approximately £5,500 billion.[15] Adding in the capitalised value of the annual outlay in Council Tax, which amounts to around £500 billion, that gives a total residential property value of £6,000 billion. Assuming land value (somewhat conservatively) is about 55 per cent of that, and it is taxed at 5 per cent of capital value – which, depending on the discount rate, would capture more or less all the economic rent of residential land – the revenue would amount to £165 billion.[16]

On top of that, there would be the revenue from commercial land, and land used for agriculture, the values of which are approximately £900 billion and £200 billion, respectively (see below). Taxing that at the same rate would bring in a further £55 billion from LVT, giving a grand total of £220 billion – which is more than the revenue that is currently collected from Income Tax, Council Tax, Business Rates and Stamp Duty Land Tax combined. That gives some idea of the potential revenue from economic rent in the form of LVT.[17]

Valuing land separately from buildings is often presented as a problem. However, as discussed in more detail later (see section, 'Common misconceptions about LVT'), once the system of valuing land is established, it is not only less costly – because it depends only on the location and planning permissions – but also, using modern methods, the valuations can be regularly updated, which is what is required for an effective system of property taxation. Valuing properties as a whole, including buildings, is more complicated.

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[15] Savills Estate agent in February 2013 gave it as £5,000 billion, but more recent estimates put it as £6,000 billion. We have split the difference.

[16] This is based on the assumption that the average rebuild cost is £100,000 (probably an overestimate), which for Britain's 2.7 million homes would amount to £2,700 billion, leaving £3,300 billion as the land value, or 55 per cent of the property value.

[17] In addition, there would be no need for special schemes, such as that for Crossrail mentioned earlier, since they would be financed automatically from the additional revenue generated as a result of the increased land value in the areas benefiting from such schemes.

The problem is, how to introduce LVT – or, more specifically, what transitional arrangements are needed for LVT to be introduced with the least side effects that might cause harm to people and businesses whose activities have evolved under the existing tax regime. That will be the major concern of the remainder of this paper. First, replacing Business Rates with LVT is considered because that is relatively straightforward.

Replacing Business Rates with LVT

There are several good reasons to replace Business Rates with LVT. First, as just explained, the necessary regular valuations would be less costly if it were just the land that was assessed, especially as it would involve fewer appeals, which are a considerable cost under the current Business Rates regime.

Second, LVT would act as an incentive to make the best use of the land occupied, subject to planning consent, and encourage investment to achieve that object.

Third, businesses would not be taxed on the buildings in which they operate, which are in effect part of their working capital. With LVT there would be an incentive to invest in improvements to business premises where they would enhance productivity.

Fourth, since around two-thirds of the land on which business premises are located is rented,[18] the introduction of LVT would remove the liability of most businesses from having to pay an annual property tax in addition to the rent. This should particularly benefit small businesses. The liability would switch to the landowner – though only up to a point, depending on the rate of LVT. That is because, under the current system, although, nominally, businesses occupying a site are liable for Business Rates, the incidence of the tax to some extent falls on the landowner, because in the absence of Business Rates landowners would be able to charge higher rents.

Finally, commercial land values accurately reflect the benefits to businesses that are provided in their locality, and hence are directly related to the profits earned. Thus, provided valuations are kept up to date, the LVT burden would be inherently affordable.

The current total rental (or rateable) value of business properties in England, according to the Department for Communities and Local Government, is approximately £57.2 billion.[19] For Scotland it is £6.6 billion.[20] The total for Britain, adding a bit for Wales,[21] therefore, is approximately £65 billion. Assuming a discount rate of 5 per cent, that gives business properties in Britain a market value in capital terms of £1,300 billion. Adding in the capitalised value of the annual outlay of Business Rates (assuming a discount rate of 5 per cent), which amounts to about £500 billion, this gives a total value for business properties of £1,800 billion. Assuming half that is land value, this would mean that the capital value of non-domestic (and non-agricultural) land would be approximately £900 billion.[22] To obtain revenue from LVT to match the current revenue from Business Rates of £26.2 billion, therefore, the rate of LVT would have to be set at approximately 3 per cent of capital value – which would yield approximately £27 billion.

This figure, of course, is very much an average figure, merely to illustrate how the revenue from LVT on commercial land at a rate of 3 per cent of capital value would be capable of replacing that currently collected by Business Rates. How the switch from Business Rates to LVT will affect individual landowners in different parts of the country, and involved in many different kinds of productive activities, would obviously vary considerably. However, as with Business Rates for businesses now, landowners would be

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18 *Property Data Report*, July 2010 (Paul Mitchell Real Estate Consultancy Ltd., at www.pmrecon.com).

19 Department for Communities and Local Government, *op. cit.*

20 www.scotland.gov.uk/Resource/Doc/917/0098553.pdf. [April 2010 figure following revaluation]

21 At the time of writing, up-to-date data for Wales were not available.

22 In fact, the proportion that is land value is likely to vary considerably, but it is assumed here that it averages out in order to give an idea of the rate of LVT that would be needed.

able to offset their liability for LVT against Corporation Tax, so that the LVT would, in effect, merely be acting as a replacement tax (which is how LVT is supposed to work). In fact, it is likely that the introduction of LVT would increase the overall tax take, because, other things being equal, as implied already, it would reduce the opportunities for tax avoidance through dubious accounting practices involving offshore tax havens.

Since the switch from Business Rates to LVT would be on a revenue neutral basis, other things being equal, capital land values would be unaffected.

The standard rate of LVT

It is proposed that LVT at the rate of 3 per cent of capital value (or whatever is decided when introducing LVT), which is approximately the rate required to collect the same amount of revenue as that collected by Business Rates, be regarded as the standard rate of LVT. This would apply to all land other than that associated with principal owner-occupied residences. Thus, it would include brownfield sites or land occupied by derelict buildings, and land banks (that is land with or without planning consent owned by builders and others as a form of 'investment', or speculation). And, as will be discussed, it would also include agricultural land and land accommodating residential homes for rent. In all those cases, the land would be capable of generating an income in the same way as land currently subject to Business Rates, and the LVT would encourage the development of sites and the most efficient use of the land in line with prevailing planning consent (which is one of the important economic benefits of LVT).

The ultimate object, however, is to raise the standard rate to, say, 4-5 per cent, with the aim of collecting all land value for public benefit and enabling LVT to achieve its full potential.

Introducing LVT on agricultural land

Currently, agricultural land (including forestry) is exempt from Business Rates. The economic case for introducing LVT on agricultural land, as in the case of land used for other purposes, is that it would encourage the best use of land. But, above all, it would stop agricultural subsidies feeding into higher land prices and rents (which benefits the big landowners), so that more of the profit from farming, including subsidies, can be invested in the actual production process, improving efficiency and diversity. Furthermore, it may persuade absentee owners of agricultural land to sell up so that more land might become available at a cheaper price for young farmers who at the moment have no chance of having a farm of their own.

It may be considered that imposing a new tax on farmers, some of whom are already struggling to make a living, would be unfair. However, first, it should be noted that, as in other cases, owners of agricultural land and farmers owning their own land would be able to offset their liability for LVT against Income Tax or Corporation Tax, so that the LVT would, in effect, be replacing wholly or in part those other taxes. Furthermore, the value of agricultural land is directly related to its fertility and productivity, and its profitability, including that arising from non-agricultural activities, which would be reflected in the liability for LVT.[23] Thus, the LVT on low value marginal land would be negligible, and in any case, as just noted, could be set against taxes on income.

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[23] The range of non-agricultural activities introduced by farmers to supplement their incomes from farming is huge, including recreational activities, farm shops and garden centres, and providing sites for telephone masts, wind turbines and solar panels, or light industries, all of which would be subject to planning consent that, in turn, would affect land values. According to some sources, the average income earned by farmers from selling produce from the land may be barely a quarter of their total income, the rest coming from non-agricultural activities and the EU subsidy formerly known as the Single Farm Payment, paid to owners of farmland for the area they occupy, whether or not it is being used to produce food. (In January 2015,

An important issue in the case of agricultural land is the volatility of market prices of agricultural commodities under the current regime, as well as seasonal variations from one year to the next, that affect agricultural incomes. Both factors have an impact on land values. That makes frequent valuations – which, as already argued, are desirable in any case – all the more necessary for agricultural land once LVT was introduced, preferably on an annual basis. Thus, the liability for LVT would automatically adjust according to the profitability of farming in any particular year.[24]

Systems for assessing the value of agricultural land are already well developed, with statistics published by the Valuation Office Agency and others. According to data from the Valuation Office Agency on unequipped farmland with vacant possession, which ignores farmhouses, buildings and other farm equipment (assuming this was a better proxy for just the land), prices ranged from just over £7,400 per hectare to nearly £15,000 per hectare in 2011.[25] Averaging these prices across the country for the different farm types, and weighting them according to the areas involved in different farming activities,[26] and taking into account the average increase in the value of farmland in 2012-13,[27] it is estimated that the total value of agricultural land in Britain is about £200 billion.[28] If this were taxed at the standard rate of 3 per cent, this would yield £6 billion. These figures, of course, are very approximate, and are merely produced to illustrate the order of magnitude of the potential revenue from LVT on agricultural land.

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the Single Farm Payment Scheme in England was replaced by the Basic Payment Scheme, which operates on the same principle, but is slightly more restricted – see https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/406452/BPS_Handbook_-_final_v1.0.pdf

[24] A strong case can be made for introducing food and agricultural policies that would not only reduce volatility arising from global markets and seasonal variations, but also to support higher prices for agricultural produce (which would also help to stabilise the liability for LVT, and revenue from LVT). However, that is an issue well beyond the scope of the present paper.

[25] Valuation Office Agency, *Property Market Report 2011*.

[26] Jawad Khan and Tamara Powell (Office, for National Statistics) and Amli Harwood (University of East Anglia, *Land Use in the UK*, 2013. (www.landuseintheuk_tcm77-316028.pdf)

[27] 'UK farm land values reach record highs', *Property Wire*, 22 February 2013.

[28] The total value of farmland given here of approximately £200 billion, assumes an average value of £13,000 per hectare for all agricultural land, including marginal land, which is then multiplied by the area of land in the UK devoted to agriculture (all types), which, excluding the 3.1 million hectares devoted to forestry, is approximately 15.3 million hectares (Khan and Powell, *op. cit.*). That figure, at least at the time of writing, is almost certainly an underestimate. According to estate agent Savills, prime arable land in England in 2012 jumped 11 per cent reaching £16,700 per hectare on average, and only slightly less in Scotland and Wales (*Market Survey UK Agricultural Land*, Savills World Research, 2013). Another estate agent, Knight Frank, has estimated that the price of agricultural land increased by a further 15 per cent in 2014, to an average £19,760 per hectare. However, a significant part of that increase is probably the result of speculation, because institutional buyers are 'showing a strong interest' in acquiring agricultural land as an 'investment' (see 'Farmland proves fertile for investors' *Financial Times*, 19 February 2015, which was also the source of this latest figure.) Added to that is the extent to which the purchase of agricultural land is being used as a device to avoid Capital Gains Tax or Inheritance Tax (a practice known as 'rollover' in the trade), which is pushing up the demand for agricultural land. (The introduction of LVT would more or less eliminate the speculative element that currently is pushing up the price of agricultural land well beyond what new entrants can afford.) Thus, as stated in the main text, the figure of £6 billion is given merely to indicate the order of magnitude of the potential revenue from LVT that could be obtained from agricultural land. It is all the more approximate because of the enormous variability in the value of agricultural land – and its productivity – ranging from lucrative arable land with a high value per hectare, to rough pasture, which has a very low value, and because the value of similar agricultural land in different regions also varies considerably, depending on such things as how well developed is the local infrastructure, including access to markets.

Replacing Council Tax with a Land Value Tax

(a) Rented residential properties

Unlike land used for owner-occupied homes, land used for rented homes, from the landlord's point of view, is income generating, and therefore should be treated differently – in fact, exactly like a business, which is what it is. Thus, it is proposed that sites occupied by rented residential properties, as implied already, should fall under the same LVT regime as that for businesses, and charged at the standard rate of 3 per cent of capital value, payable by the landlord, if they are the landowner. The rate could be varied in the first instance to take account of particular circumstances or to achieve particular objectives. How the regime would work with various leasing arrangements, which may also affect other types of property, is explained later.

Under this proposal, tenants, unlike now, would not be liable to any kind of property tax – which is fair because they do not actually own the property where they live. As with shifting from Business Rates to LVT in other business sectors, the building itself would not be subject to tax.

Landlords would be able to offset their liability for LVT against Corporation Tax, if a big commercial landlord, or Personal Income Tax, if a small business, so that the LVT would not be additional to existing taxes, but, in part, a substitute, which is one of the basic principles of introducing LVT. And, as mentioned already, it would have the advantage of reducing opportunities for tax avoidance. That, together with the fact that LVT at a rate of 3 per cent of capital value would be more than that currently collected through Council Tax on rented properties, would increase the tax take – which would help to offset the loss of revenue as a result of phasing out other taxes on property (see below).

(b) Owner-occupied residences

One of the major concerns (both among politicians and the public at large) is what adverse repercussions a change in the tax regime might have on people's welfare, or lifestyles. If LVT were introduced at what is proposed here as the standard rate of 3 per cent of capital value (let alone the 4-5 per cent that would be needed in order to maximise the economic benefits of LVT), households would suddenly find a huge escalation of their outlay in tax compared with the current Council Tax – much more in some areas, than in others. In some locations, especially in London, introducing LVT at 3 per cent of capital value for owner-occupiers could result in a sevenfold increase or more in their outlay – which would be unacceptable.

Of course, the whole point of introducing LVT is not to increase taxation at all, but to substitute other taxes that have adverse social or economic consequences. However, in practice, because there is a very wide spectrum of people's circumstances, it would not be possible to predict precisely the effect on individual households of sharply reducing other taxes following the introduction of LVT at such a high rate. The process needs to be much more gradual to allow time for households and the economy to adjust to the effects of the new tax regime. That is why a concessionary rate of LVT is proposed for land associated with principal owner-occupied homes, such that in the first instance, the outlay on LVT, on average, would be no more than what households now pay in Council Tax.

Currently, around 65 per cent of homes are owner-occupied. Using the figure for the total value of residential property given previously of £6,000 billion, and assuming that this is distributed proportionately between the rented sector and the owner-occupied sector, this would give a total value for owner-occupied homes of £3,900 billion. Assuming, as before, that the land component is 55 per cent of that, this would give the total land value occupied by owner-occupied homes of £2,145 billion. Meanwhile, the current revenue obtained from Council Tax is £27.4 billion. However, this derives from both rented and owner-occupied homes. Again, assuming that this is divided proportionately between the two sectors, the total Council Tax revenue from owner-occupied homes would be approximately £17.8 billion (65 per cent of £27.1 billion). Thus, the revenue that the LVT would need to collect in order to replace that currently collected from owner-occupied homes through Council Tax would have to be approximately 0.85 per cent of capital value on average.[29]

A major issue is that in some localities – most notably London, and to a lesser extent in certain other areas – where land values have risen excessively, LVT set even at that concessionary rate could mean that the outlay for households might considerably exceed that currently paid in Council Tax. In order for households not to receive a bill greatly exceeding their current Council Tax bill in those localities, therefore, it is proposed that the rate of LVT be set by each local authority such that the LVT collected the same amount of revenue as that currently collected by Council Tax from owner-occupied households in their local area.[30]

In other words, initially, the rate of LVT would be different for each local authority, such that the 0.85 per cent figure given above would represent merely the average. The figure is given here simply to illustrate the order of magnitude of the rate of LVT required. The detailed calculations would have to be carried out by each local authority, which would also require treating the rented sector separately from the owner-occupied sector.

One significant problem, arising from the long delayed revaluation of properties for Council Tax purposes, is that the introduction of LVT, which would be based on a new valuation of the land element, will probably lead to some quite large changes in tax liability, either positive or negative, for individual households giving rise to 'ungrateful winners and vocal losers',[31] with the latter blaming it on the new tax rather than the failure to revalue properties for the old tax! It should therefore be made clear that a Council Tax revaluation would have similar results. For badly affected households, measures to ease the transition could be introduced (see next).

Easing the burden of paying LVT for homeowners

One of the reasons for the unpopularity of Council Tax, apart from its regressiveness, is that it is 'in your face' all at once when the annual bill arrives, whereas Value Added Tax, for example, is practically invisible, and Income Tax is deducted prior to receiving one's weekly or monthly earnings. LVT would have a similar problem if collected in the same way, though, as with Council Tax, this could be mitigated to some extent by monthly payment and direct debit arrangements, so that the bill does not have to be paid all at once.

A simple solution that would cover most homeowners would be to link the payment of LVT to the PAYE system for collecting Income Tax and National Insurance contributions, such that it would merely be a matter of adjusting a taxpayer's PAYE code. HMRC already has the addresses of all income taxpayers, so it would simply require local authorities to update their Council Tax register. Landlords and the self-

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[29] The fact that one can replace the total revenue from Council Tax with LVT at a rate of approximately 0.85 per cent, whereas one needs a rate of approximately 3 per cent to replace NNDR, is a reflection of how much the land value of industrial and commercial sites is already collected by NNDR, and a measure of the extent to which residential land is relatively under-taxed. That is also why the market value of land for commercial premises is much lower than that for residential.

[30] Note that this proposal, unlike that of the Heriot-Watt study already referred to, would not require a separate scheme for London.

[31] 'A British property tax that is fit for purpose' (editorial), *Financial Times*, 25 September 2014.

employed could include LVT on their Self-Assessment Tax Return, or pay by direct debit.

Meanwhile, retired people could be given the option of deferring (or rolling over) the payment of LVT, either wholly or in part, until the property was sold or transferred. This would enable pensioners to carry on living in their properties at no extra cost, and, if they so chose, pay less tax than now. However, it is only fair that the tax plus interest should be paid eventually. Alternatively, people may choose to move to properties or areas where land values are lower, or to smaller premises after their children leave home, thus reducing their liability for LVT. Schemes exist, and could be expanded, to facilitate such moves, including house swaps. Abolishing Stamp Duty Land Tax would also help (see below). Finally, for the low-paid, some form of benefit could be introduced similar to the Council Tax Reduction scheme that operates now.

Apportioning LVT in leasehold properties

In the case of leased properties, it is the owner of the property rather than the landowner or freeholder, or other lessees, who, without LVT, would benefit the most (but not solely) from rising land values, because rents for lessees or freeholders are generally fixed for extended periods. The question arises how to apportion the liability for LVT among those with an interest in the property (land and buildings).

It is proposed here that the fairest approach would be to charge the landowner or freeholder of leased properties a percentage of the rent they receive at the prevailing rental rate of LVT, and deduct that amount from the LVT to be paid by the owner of the property.[32]

Thus, for a leasehold owner-occupied property, if the rate of LVT were 0.85 per cent of capital value, and assuming a discount rate of 5 per cent, the freeholder would have to pay 17 per cent of the rent they received as LVT, and the owner 0.85 per cent of capital value of the land occupied by the property, less the amount paid by the freeholder or land owner.

In the case of a leasehold rented property, where the rate of LVT, as proposed here, is 3 per cent of capital value, the tenant, of course, would pay no LVT, the owner would pay 3 per cent of the capital value of the site less the amount paid by the freeholder, which, assuming a discount rate of 5 per cent, would be at a rate of 60 per cent of the rent they received. In some cases, the structure of ownership may include intermediate lessees such as a ground lessee (who leases the land from the freeholder), and an intermediate lessee (who owns the building for rent), in addition to the landlord renting out the property. In these cases, all the intermediate lessees would have to pay 60 per cent of the rent they receive as LVT.[33]

Effect of LVT on house prices

An important side effect of introducing LVT, especially at a relatively high rate – which is what is required for its economic benefits to be realised fully – is that the market price of land, and therefore houses, other things being equal, would become considerably lower than previously. That is because the price would be discounted by the annual outlay of LVT. Note that although the market price would fall, the value of the land, other things

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[32] This proposal is based on that in Owen Connellan, *Land Value Taxation in Britain: Experience and Opportunities*, Lincoln Institute of Land Policy, Cambridge, Massachusetts, 2004; p. 128-9.

[33] If 60 per cent seems excessive, it has to be asked what the landowner, as distinct from the owner of the property, is doing other than watching the value of their land increasing as a result of the activities of the rest of society. In any case, the landowner and intermediate lessees would be able to offset the LVT due against Corporation Tax or Income Tax.

being equal, would remain unchanged, because it would comprise the market price plus the capitalised value of the annual outlay of LVT.

On top of that, land prices would be driven down further by the increased supply of land and housing coming onto the market as a result of the owners of derelict sites and land banks seeking to develop the land in order to offset their liability for LVT and landlords offloading their now less profitable rented properties. Indeed, this is what LVT is supposed to do: reduce the cost of acquiring homes, or premises by businesses, so that more money would be available for investment, including the construction of new homes, thus improving employment prospects, and generally furthering the process of economic development.

On the plus side, therefore, the purchase of homes would become more affordable, and less economic rent in the form of interest would disappear into the coffers of banks. Most important, it would establish a mechanism that would bring to an end the constant escalation of property prices – which not only hugely benefits the banks at the expense of everybody else, but also forces homeowners to lay out a major part of their earnings on mortgage repayments, and puts home ownership beyond the reach of young people without help from older relatives.

However, such a fall in house prices would not be such good news for the two-thirds of households in Britain already living in owner-occupied homes (nor for the politicians who depend on them for votes). They would not like to see a decline in the market value of their property (that is the price it would fetch if sold) – which, more often than not, is their main form of wealth (or potential wealth if they are still paying off a mortgage). It would also lead to concerns about so-called 'negative equity' where many outstanding mortgages would exceed the market value of the houses on which they were secured. Furthermore, most homeowners have got used to the comfortable idea of their homes increasing in value year by year.

In fact, of course, most homeowners would not be worse off, because if they moved, although they would get less when selling their property, they would pay less for the properties they moved to. (And, in addition, according to what is proposed in this paper, following the introduction of LVT, they would not have to pay Stamp Duty Land Tax on the purchase of the new property.) In the case of inheriting a property, although the heirs would get less if they sold it, it would cost less to acquire, or upgrade to, a new property (which is what most people do when they inherit a property), so again it would make little difference.

Nevertheless, in spite of that, people inevitably would feel worse off – all the more so among those who had borrowed heavily in their desperation to buy a home.

But the key point is that if, in the first instance, LVT were merely replacing Council Tax, which is what is being recommended here, owner-occupied residential property prices on average, other things being equal, would not decline. That is because if the amount of revenue collected, on average, were the same, the price of properties would be discounted by the capitalised value of the annual outlay to the same extent, whether it were Council Tax or LVT. That would not be the case if the standard 3 per cent rate of LVT were applied to owner-occupied houses: their market price would indeed fall, which would not be popular with those already on the 'property ladder'. In short, the case for a concessionary rate of LVT for owner-occupiers is not only to prevent a sudden rise in tax liability, as discussed above, but also to prevent a sudden drop in the market price of houses.

Other factors affecting house prices

During the transition period of 10-20 years recommended below for gradually converging the different rates of LVT, many other factors may affect house prices – not least how the economy as a whole is performing, as well as what policies a government might favour – all of which may swamp the effects of introducing LVT.

Factors tending to inflate house prices (related to an increasing demand for housing relative to its supply), which could offset the dampening effect on prices arising from raising the rate of LVT, include:

- Population growth;
- Growth in the number of households (which currently exceeds population growth due to the increasing number of single person and single parent households);
- Economic growth, which increases people's spending power (which would be enhanced by the introduction of LVT);
- The greater availability of credit, or its lower cost, both of which would enhance the economic demand for housing;
- Government schemes, such as 'Help-to-Buy', which also enhance the economic demand for housing;
- Insufficient investment in housing to rent or buy;
- Tacit collusion among the big house-builders to restrict supplies to keep prices high;
- Speculation, including foreign buyers, using housing as an 'investment' to protect their wealth.

On the other hand, there may be factors tending to depress prices to a greater extent than the effect of raising the rate of LVT, including:

- Credit controls and other regulations that restrict credit availability, such as minimum deposit requirements;
- An increase in interest rates;
- Government or local government investment in housing, including subsidies acting as an incentive for the private sector to invest in housing;
- Regulations to release land banks (probably unnecessary after the introduction of LVT);
- Rent controls (which makes renting more affordable, thus reducing the demand for house purchases);
- The lifting of planning restrictions;
- An economic downturn or depression.

In short, if the factors tending to inflate house prices were in the ascendant, it could be possible to increase LVT at a faster rate, which would offset their effects. If the latter factors were dominant, which mainly arise from changes in government policy, they could work alongside LVT to improve people's access to affordable housing, along with other policies that would help boost economic development and employment that would make housing more affordable.

Restrictions on the concessionary rates of LVT

It is proposed that the concessionary rates of LVT would apply only to land associated with principal owner-occupied homes, and that land occupied by second or holiday homes should be liable to the full standard rate of 3 per cent. This would help prevent the local working population from being crowded out by escalating house (land) prices, because LVT at the higher rate would render house prices lower than they otherwise would be. In order to receive the concessionary rate, it is recommended that homeowners be required to declare that the property is their main home, and to register the addresses of second homes with the local authorities concerned.

It is further proposed that land occupied by homes that had remained empty for more than one year be charged the standard rate of LVT in order to encourage them to be brought back into use.

In addition, there may be a case for charging LVT at the standard rate on land accommodating newly built houses, as the land before the houses were built would already have been charged at the standard rate. This would mean, other things being equal, that the houses would be cheaper to buy than otherwise (because they would be discounted to a greater extent by the capitalised value of the annual outlay on LVT), making them more affordable. There would, of course, be a higher liability for LVT, but if bought with a mortgage, the monthly outlay would tend to be the same as that for an equivalent second-hand house. For house-builders, the downside would be that they would have to sell the houses for a lower price than otherwise, reducing their profitability – but they would be relieved of the LVT that previously they had been obliged to pay. Much would depend on what effect the other factors were having on house prices.

Finally, it is proposed that the owners of large country estates, which may contain valuable assets such as mountains, lakes, rivers and natural flora and fauna, be liable for LVT at the full standard rate of 3 per cent on criteria similar to those which apply to Capital Gains Tax. Properties owned by the National Trust and similar bodies, which are open to the public would count as public amenities, and would be exempt from LVT.

Effects of the different rates of LVT for rented and owner-occupied housing

During the transition period, what might the consequences be of charging sites with rented residential housing at the higher standard rate of LVT while sites occupied by homeowners are charged at the lower concessionary rate?

When a property goes on the market it can be bought by someone who intends to live in it, or by someone who proposes to rent it out. At the time of the sale, whatever the intention, it would not affect the price; it would simply reflect what the market would bear. The person buying to let will have to pay higher LVT, so will not be inclined to pay so much for the house since the LVT would reduce the rental yield. The prospective owner-occupier, on the other hand, would face an LVT burden similar to their previous Council Tax (on average) so would be willing to pay the former market price. As such, the owner-occupier would be favoured, and it would be less profitable to own rented houses. The proposed differential rate of LVT, therefore, would disadvantage prospective buy-to-let landlords, and, other things being equal, would reduce the amount of rented accommodation (though, over time, as already discussed, many other factors affecting the supply and demand for both rented and owner-occupied accommodation would likely come into play).

Convergence of the different rates of LVT

The concessionary rate of LVT, as has been discussed, is designed to protect homeowners, first, from a sharp increase in their liability for tax following the replacement of Council Tax with LVT, and second, from falling property prices that, other things being equal, might have resulted from applying the standard rate of LVT. However, this undermines the aim of optimising the full economic benefits of LVT, and the efficient use of land, and runs counter to the need to bring down the price of housing.

It is envisaged, therefore, that as the economy adjusted to the new LVT regime during a transition period of, say, 10-20 years, the initial concessionary rates of LVT would be raised gradually to the standard rate of 3 per cent, or whatever rate is decided in the future. (Thus, during that transition period, depending on circumstances, it could be decided to begin raising the standard rate independently of whether the concessionary rates had been brought up to 3 per cent.) In line with the general principle that LVT is a replacement tax, and not an additional tax, the increasing rates would be offset by reducing other taxes, especially those that have adverse social or economic consequences.

This could start, perhaps, with VAT. For example, if the rate of VAT were reduced from the current 20 per cent to 15 per cent, on a revenue neutral basis, the rate of LVT on average could be increased from 0.85 per cent to 1.6 per cent of capital value.[34] Since VAT is a regressive tax, a reduction would be of particular benefit to lower income groups, especially those living in rented accommodation (because they would not be liable for LVT).

Later, or at the same time, the threshold for paying Income Tax could be raised, or a lower rate introduced, thus again benefiting lower income groups, in particular because they tend to occupy lower value land, and would be less affected by the gradual rise in rates of LVT.

Meanwhile, raising the rate of LVT more or less in line with inflation during that transition period, other things being equal, would gradually bring down the market price for housing in real terms because it would increasingly be discounted by the rising capitalised outlays on LVT – which, as just noted, would be offset by reducing other taxes. This would achieve the aim of bringing down the cost of housing (in real terms), and, at the same time, protect those already on the property ladder from falling prices in money terms.

Replacing other taxes related to land or property

Other taxes related to land or property, include Section 106 Agreements, the Community Infrastructure Levy, Stamp Duty Land Tax, and the new Annual Tax on Enveloped Dwellings.

Section 106 Agreements, in England and Wales, refer to planning obligations negotiated between a developer and a local authority under the terms of Section 106 of the Town and Country Planning Act 1990 (as amended), and are essentially a form of development land tax.[35] The argument in their favour is that developers should pay for schools, access roads, extra costs of drainage or flood control and public transport improvements, which are consequences of their developments, as well as community facilities, play areas, tree planting, and so on. Developers try very hard to avoid paying for those things, even though they are a necessary part of the developments. Builders also strive to resist another aspect of Section 106 Agreements: an obligation to provide a proportion of 'affordable homes' within the development.

The major problem with Section 106 Agreements is their ad hoc nature, and the lack of clarity of criteria used for arriving at such Agreements. Nominally, they can only be levied in order to 'mitigate harm' that would otherwise arise from the development, such as increased traffic congestion on local roads, overcrowding in local schools, or the tendency for developments to favour luxury housing at the expense of affordable housing required by people who work in the area. This, of course, is all a matter of interpretation. Section 106 Agreements, therefore, are notoriously variable and unpredictable between – and even within – planning authorities, and half of all planning authorities in 2006 were not even using Section 106 Agreements.

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[34] Currently, VAT collects just over £100 billion. Reducing the rate to 15 per cent (currently the minimum standard rate under EU law), other things being equal, would reduce the take by about £25 billion. This could be offset by increasing the average concessionary rate of LVT to 1.6 per cent, which would raise the revenue from LVT on sites occupied by owner-occupied residences from £27.4 billion to approximately £52 billion.

[35] In Scotland the equivalent is Section 75 of the Town and Country Planning (Scotland) Act 1997.

Much depends on the negotiating skills of local planning authorities, which, if genuinely acting in the public interest, will want to extract the maximum contribution from property developers. The latter, on the other hand, will seek to keep their obligations to a minimum. Consequently, negotiations can be protracted, often involving expensive legal advice and lawsuits, or appeals against decisions made by the planning authorities. This can make Section 106 Agreements costly to implement, not least because of the delays before society will benefit from the proposed developments. Furthermore, because of the opaqueness of Section 106 Agreements, it is often hard to 'dispel the whiff of corrupt paying for planning permission', tending to favour big national and international property developers, at the expense of local builders who might have a more genuine interest in the local community.[36]

The Community Infrastructure Levy is a system of tariffs, or 'Planning Charges', proportionate to the size and scale of a development. Under this system, in exchange for receiving planning permission, developers have to agree to pay a Planning Charge or Levy when told to do so by local authorities, so that infrastructure can be provided. However, under such a system, landowners and property developers would still be able to withhold land from use, watching its value rise, simply by not seeking planning permission. Moreover, the Planning Charge or Levy is merely a one-off payment, and paid only by the developer, and not by neighbouring properties benefiting from the development, thus limiting the amount of revenue that can be raised.

Both Section 106 Agreements and the Community Infrastructure Levy are cited quite reasonably by developers as one of the reasons for long delays in proceeding with permitted developments.

In short, much better than securing Section 106 Agreements or imposing the Community Infrastructure Levy, would be to pay for all the consequences of the development out of public funds, then recover the cost from the increased LVT that would result from the development, including the beneficial effects on the wider community beyond the development.

It is proposed, therefore, that Section 106 Agreements and the Community Infrastructure Levy should be phased out following the introduction of LVT.

The problem with Stamp Duty Land Tax is that it discourages the change of ownership of properties. Thus, in effect, it penalises those wishing to move to a more convenient location, or more suitable premises, and therefore perpetuates the inefficient use of land and buildings. It is therefore recommended that this tax be abolished following the introduction of LVT. This could be financed from the additional revenue from LVT arising from the higher rate of LVT charged on rented residential sites, and that obtained from agricultural land, land banks and derelict sites on which no property taxes are levied at present.

The Annual Tax on Enveloped Dwellings, introduced in 2013, and payable by companies and corporate bodies that own high value residential properties, would become redundant following the introduction of LVT when it could be abolished.

Capital Gains Tax and Inheritance Tax may also apply to land and property. Although principal private residences are exempt from Capital Gains Tax when sold, there are some restrictions, such as: if the house was not used only as a main residence throughout the period of ownership; the garden or grounds, including the site of the house are greater than 5,000 square metres; part of the home was ever used exclusively for business purposes; or, all or part of the home has been rented out. Thus, to some extent, the introduction of LVT would replace part of the revenue currently obtained from Capital Gains Tax and Inheritance Tax.

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[36] Tony Vickers, *Location Matters: Recycling Britain's Wealth*, Shepheard Walwyn (Publishers), London, 2007; pp. 70-1.

Should a Land Value Tax be national or local?

Once all land has been valued, it is perfectly possible to set a rate of LVT to finance local government activities, and another rate that goes to the national governments, or central government. In other words, a Land Value Tax can be both national and local – or either. At the stage of replacing Council Tax and Business Rates with LVT, which is primarily the concern of this paper, it should be regarded as a local tax (Business Rates were originally a local tax). Later, when (or if) it moves towards replacing other taxes – as would be recommended for the full economic benefits of LVT to be realised – then it can have a national element too.

Currently, one of the problems with Council Tax and Business Rates (the latter, as noted already, although collected locally, goes to central government, and is then redistributed back to local authorities on a per capita basis) is that they do not collect enough revenue to finance all local government activities. Central government, therefore, has to top up the revenue they need, in the form of various grants – all with restrictions on how they are used – which on average may amount to as much as half the revenue of local authorities. Replacing just Council Tax and Business Rates with LVT would perpetuate that situation. It may be argued that in order to ensure accountability and local autonomy, local authorities should be free to raise revenue in whatever way they can to cover all their expenditure.[37] However, even under the present system, in order to replace the central government grants a considerable amount of extra revenue would have to be raised locally, and this, presumably, would have to be compensated for by a reduction of other taxes at national level. So, inevitably, moving to a system of local accountability would have to involve the central government.

But there is a further issue. Britain, in terms of local government areas (and in general, of course) is a highly unequal society. Leaving the raising of revenue and setting rates of tax entirely in the hands of local authorities would tend to perpetuate that situation. That is because local authorities in the more affluent areas, which would tend to have lower expenditure on social services and the like, would not have to raise so much revenue as local authorities in poorer areas, where expenditure on social services is likely to be greater. In other words, those living in more affluent areas would tend to end up paying less tax than those living in poorer areas. As noted earlier, that is precisely the situation now: people living in the more affluent London and the South East, on average, are paying less Council Tax as a percentage of house prices than those living elsewhere, most notably in the North East.

Part of the role of central government grants is to act as an equalisation mechanism to redistribute higher tax revenue collected from richer people centrally to poorer local authorities requiring more help to provide the services needed by people living in their areas. Replacing Council Tax with LVT on a revenue neutral basis in the first instance, as recommended in this paper, would tend to perpetuate the existing inequalities between local authorities, so the current equalisation mechanism would have to remain in place for the time being.

Furthermore, in the case of land taxes, there is the issue that land values are not only, or perhaps even primarily, generated locally. Many large towns and cities, notably London, acquire higher land values not only from their citizens' own efforts and resources, but also from the economic activities taking place elsewhere, even in the nation as a whole, or beyond. They also benefit more from public investment in

[37] This was a primary concern, for instance, of the Layfield Report on local government finance in the mid-1970s (which, incidentally, was a response to protests arising from the delayed revaluations of the old rating system). See *Local Government Finance*, Report of the Committee of Inquiry, Cmnd. 6453, HMSO, London, 1976.

amenities and infrastructure financed by the nation as a whole. The land value that these activities generate, therefore, cannot be said to originate solely from the activities of 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.

The supposed downside of a centrally controlled system – in which both the rate of tax, and how the proceeds are allocated to local authorities, is decided centrally – is that, in effect, it divorces the collection of tax from the services provided by local authorities. This, arguably, undermines 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 Business Rates (and a much higher proportion if account is taken of the many national services, which in fact, are managed locally, such as the NHS, policing, the fire service, and so on).

However, in all these cases, local politicians would still largely be responsible for how the funds at their disposal were spent, for which they would be answerable to their constituents – so to that extent local accountability would prevail. Once Britain had become a more egalitarian society, it would be possible to give local authorities more autonomy in the raising of taxes, and the provision of services, if that is deemed necessary to improve local accountability.

For now, for the sake of fairness, following the introduction of LVT, central government will need to continue to be involved in local government finance. Thus, it is proposed that central government would set the standard rate of LVT nationally (say, 3 per cent of capital value, initially, as recommended here), and to supervise the concessionary rates of LVT for owner-occupied residences in each local authority area. Local authorities would then collect the revenues from LVT. Grants from central government, based on population and needs, would continue.

Once LVT started to move beyond merely replacing Council Tax and Business Rates, but extended to replacing other taxes, central government would have to be involved because it would require decisions on how much to reduce other taxes that currently are collected centrally. As the rates of LVT were raised and converged into a single rate (during a transition period of, perhaps, 10-20 years, as suggested earlier), the revenue that local authorities could raise from LVT would gradually increase. This would enable central government to reduce grants to local authorities by the amount of LVT local authorities were able to collect. In richer areas, this could mean that the local authorities would start paying increasing amounts of the revenue they collected from LVT to central government. This would apply to more and more local authorities as the standard rate of LVT, over time, was raised and extended to all land – which would allow other taxes that have adverse economic or social consequences to be abolished or reduced. In other words, LVT would become both a local and a national tax, with beneficial effects throughout the economy.

Conclusion

The major problem with the current tax on residential property, namely Council Tax, is that it is severely regressive in that poorer people living in lower value properties (which they may not even own), and in areas where lower value properties are concentrated, pay a higher proportion of the value of the property in tax than richer people, living in higher value properties, and in local authority areas where higher value properties are located. Furthermore, Council Tax is based on valuations carried out more than two decades ago, during which time relative values will have changed considerably.

The problem with the current tax on business properties, namely the Business Rates, is that it is costly to value the properties on which the tax is based, because of the hugely diverse nature of commercial and industrial buildings, whose values may change significantly over the course of economic cycles. And it tends to penalise new investments by businesses.

Replacing those taxes with a Land Value Tax (LVT) would not only reduce costs through the use of Geographical Information Systems and computerised mass assessment techniques, but also would lead to the more efficient use of land, and end the blight of derelict sites, because the requirement for landowners to pay LVT acts as an incentive to develop sites in line with permitted use. The latter is also a major reason for the proposal to introduce LVT on agricultural land, which, in addition, would stop agricultural subsidies feeding into higher land prices and rents, and instead encourage investment in agricultural production itself.

Furthermore, shifting taxation onto land values would begin the process of capturing the economic rent from land for public purposes – instead of the rent, which derives from the economic and social activities of society as a whole, going to private landowners and property developers as a form of unearned income – and to banks via the enormous amounts of interest people have to pay on the mortgages they are forced to take on due to the escalation of property prices. Indeed, the introduction of LVT would stop credit feeding into higher property prices at the expense of investment in the productive economy, which has resulted, since the deregulation of banking, in prices escalating to such an extent that homeownership is now beyond the reach of most people not already on the 'property ladder' (unless older relatives can help).

By gradually raising the rate of LVT over a generation, such that it collects all the economic rent from land, the ownership of land would lose all significance. The income from the land, or its use value, would derive solely from the economic activity or buildings on the land. There would be no gain simply from owning the land.

However, a major issue is that LVT would have the effect of lowering land prices (and therefore property prices), because the prices would be discounted by the annual outlay of LVT – the more so, the higher the rate of LVT. This, of course, is one of the long-term benefits of LVT, because, as just implied, it would allow financial resources to go into the productive economy rather than into land, causing price bubbles. But, in current circumstances, such an effect would have a perceived adverse impact on homeowners, who would see the market value of their properties fall.

This would be much less of a problem for businesses because, first, Business Rates already collect a much greater proportion of economic rent from land than residential properties. Second, unlike owner-occupied homes, the land is being used to generate an income that can cover LVT. Third, the two-thirds of businesses that operate on rented land would benefit from the fact that the liability for tax would shift to the landowner. These last two factors would apply also to rented residential properties, which can be treated like any other business premises.

But for owner-occupied residential properties a significant transition period is required to take into account how the property market has evolved in the absence of LVT, including the fact that land values for residential properties have soared to such an extent that replacing Council Tax with LVT at the proposed initial standard rate of 3 per cent of capital value would hugely increase householders' tax liabilities – and offsetting that through a significant reduction of other taxes would be complicated because of the enormous variations in people's circumstances under the system that has evolved. That is why it is proposed here that for owner-occupied residential properties, LVT should be introduced gradually, in the first instance, merely replacing Council Tax on a more or less revenue neutral basis, at a concessionary rate of approximately 0.85 per cent of capital value (varying according to the total current Council Tax receipts from owner-occupied properties of each local authority). These concessionary rates would also mean that the introduction of LVT, on average, would have no overall effect on the market values of properties because they would already have been discounted by the annual outlay of Council Tax.

However, in order to achieve the economic and social benefits of LVT, it is proposed that the rate of LVT be gradually raised to the standard rate of 3 per cent, in parallel with reducing other taxes, again on a revenue neutral basis, thus to allow time for the economy and people's circumstances to adjust to the new regime. Depending on other factors affecting the economy, it is suggested that this might require a 20-year transition period – and beyond that if the rate of LVT were raised further to say, 5 per cent (on a revenue neutral basis) – which is what would be required for the full benefits of LVT to be realised.

Nevertheless, even at the concessionary rate of LVT, at the individual household level, the introduction of LVT will produce winners and losers as a result of the valuation that would have to take place for LVT purposes – mainly because properties have not been revalued for Council Tax purposes for 24 years (or ten years in the case of Wales), during which time much has changed with respect to property values, both absolutely and relatively. This underlines the need for frequent revaluations – which, indeed, would be simpler, and much lower cost, once LVT was up and running.

The transition to LVT could be further eased for many people by linking the collection of LVT to the PAYE system currently in use for collecting Income Tax and National Insurance, and allowing pensioners, if they so chose, to roll over the LVT due until the property was sold. Also, the benefit system could be used to help those on low incomes, as happens now with Council Tax.

To sum up, introducing LVT will establish a mechanism that, over time, would bring to an end the constant escalation of house prices – which not only hugely benefits the banks and property speculators at the expense of everybody else, but also forces homeowners to lay out a major portion of their incomes on mortgage repayments, or puts home ownership beyond the reach of young people without rich relatives. This would be achieved by gradually raising the rate of LVT – at the same time reducing other taxes, so that taxpayers, on average, would be no worse off – with the aim of stabilising the market prices of properties in money terms, and, in real terms, would mean that prices would gradually decline, as would mortgage repayments. In other words, it brings forward the day when society as a whole would benefit from the economic rent from land created by people's economic and social activities, instead of going into the coffers of the big banks and landowners.

Finally, it should be emphasised that LVT on its own will not solve all the prevailing social and economic problems, which requires many other measures to be taken in parallel – a discussion that is beyond the scope of the present paper.

Summary of recommendations

Recommendation One. For principal owner-occupied residential properties, replace the Council Tax with a Land Value Tax (LVT) on a revenue neutral basis. This would require an average rate of LVT, initially, of 0.85 per cent of capital values, but varying according to the total current Council Tax receipts from owner-occupied properties of each local authority.

Recommendation Two. For commercial and industrial properties, replace the Business Rates with LVT at the standard rate of 3 per cent of capital value of the site.

Recommendation Three. For rented residential properties, remove the liability for tax from occupying tenants on the basis that they are not landowners, and treat rented residential properties in the same way as any other business, charging the landlord LVT at the standard rate of 3 per cent of capital value of the site.

Recommendation Four. For leasehold properties, charge the landowner or freeholder a percentage of the rent they receive at the prevailing rental rate of LVT, and deduct that amount from the LVT to be paid by the owner of the property.

Recommendation Five. For owners of second homes for private use, and homes that have been empty for more than one year, charge LVT on the site at the standard rate of 3 per cent of capital value.

Recommendation Six. Charge owners of derelict land, land banks and large country estates LVT at the standard rate of 3 per cent of capital value.

Recommendation Seven. Charge owners of agricultural land at the standard rate of 3 per cent of capital value as for other businesses.

Recommendation Eight. Phase out Section 106 Agreements and the Community Infrastructure Levy, and abolish Stamp Duty Land Tax and the Annual Tax on Enveloped Dwellings.

Recommendation Nine. The rate of LVT to be set nationally, taking into account initially the revenues currently raised by local authorities from Council Tax, and for local authorities to collect the revenues from LVT, with grants from central government, based on population and needs, reduced by the amount of LVT local authorities are able to collect.

Recommendation Ten. For the purposes of implementing LVT, all land to be re-valued on at least an annual basis, and once a methodology has been established, on a continuous basis, using the latest methods.

Recommendation Eleven. Over a period of, say, 10-20 years, depending on circumstances, converge the concessionary rates of LVT, and gradually raise the rates to the standard rate of 3 per cent of capital value; then, over a further extended period, say, 20-30 years, gradually raise the rate to, say, 4-5 per cent of capital value, with the aim of collecting all land value for public benefit, thus allowing LVT to reach its full economic potential.

APPENDIX: Some common misconceptions concerning LVT

For many people, the taxation of land values is a relatively new idea. Unfortunately, it has become associated with a number of myths or misconceptions – often perpetuated by various landed vested interests. Some of the most common ones are listed below, together with explanations as to why they are indeed myths or misconceptions.

1. It is hard to value land objectively and separately from the structures on the land. It is often thought that the valuation of properties is a matter of opinion – if one seeks to have a property valued, agents invariably come up with different answers. However, that is not how properties are valued for taxation purposes. It is based on the prices that properties actually fetch when sold, not on someone's opinion on what they might fetch if put on the market. In other words, it will be based on objective data, which is already held by HM Land Registry.

Next, valuing land accurately and separately from the buildings and developments on the land is often thought to be more difficult than valuing properties as a whole, when, in fact, it is the opposite. It is true the incidence of bare land being sold, which could provide a benchmark for valuing other land, is less common. However, as the Mirrlees review points out, 'there are recognised methods for determining land value where the market for land is thin: where similar buildings are valued differently according to location, for example, it is not hard to imagine that the difference in overall value reflects the difference in land values'.[38] Indeed, at least seven methods for valuing land have been recorded, which can be used as crosschecks on one another.[39]

Valuing land is less complicated than valuing buildings because the only factors that need to be considered are location and potential use consistent with prevailing planning regulations, whereas for buildings, additional factors, such as the state of repair, what the buildings are being used for, how old they are, their architectural merits, their internal space, and so on, have to be taken into account.

The valuation of land, therefore, can more easily be generalised, which allows the extensive use of modern information technology, including computer-aided mass assessment and Geographical Information Systems (GIS). Maps showing a 'land-value-scape' can be drawn up, analogous to topographical maps, but instead of demarking altitude with contours and different shades of colour, they identify sites and zones with 'contours' (or 'patches') with the same land values per hectare or square metre in different colours, which would be open to public scrutiny.[40]

In short, by collecting data on valuations and sales of similar properties in different locations, and on the valuations and sales of different properties in the same neighbourhood, including differences between property prices and their values for insurance purposes, and other data, it is possible to arrive at accurate estimates of land values over the whole country.[41]

Once such a system for valuing land is up and running, by recording and tracking property sales and other data throughout the country, it would be possible to update land values more or less continuously. Over time, it would be possible to incorporate new

[38] J. Mirrlees, S. Adam, T. Besley, R. Blundell, S. Bond, R. Chote, M. Gammie, P. Johnson, G. Myles and J. Poterba, *Tax by Design: the Mirrlees Review* Oxford University Press, 2011, Chapter 16'The Taxation of Land and Property' (see also www.ifs.org.uk/mirrleesreview).
[39] Ted Gwartney, 'Estimating Land Values', paper presented at conference Arden, Delaware, 1999, at www.henrygeorge.org/ted/htm. See also Ted Gwartney, 'Methods Used to Value Land' (1999) www.labourland.org.
[40] See Vickers, *op. cit.*
[41] The Valuation Office Agency even now publishes estimates of land values for residential, industrial and agricultural land for different Regions of the country.

data – perhaps using a points system that would take into account proximity to amenities and services, which would increase land values, or congested roads or unsightly vistas, which would depress values – so that the system of land valuation would become ever more refined.

Thus, it is not true that valuing land is problematic, as opponents or sceptics of land value taxation often assert – often the same people who quite happily accept the valuation of buildings, even though this is more difficult. Valuing land, especially in towns, which is where the most valuable land is located (because it is in high demand) is much simpler, because, as discussed, it depends essentially on location, and planning consent. Indeed, in the United States, in towns where a split-rate tax system operates (where sites and buildings are valued and taxed at different rates), the staff required for assessing land values is about one tenth of those needed for assessing buildings, and the number of appeals against land valuations is a small fraction of those involving building valuations.

2. LVT should be based only on rental values. It is often argued among advocates of LVT that using capital values for the purposes of LVT is less accurate, first, because they are more subject to speculation or 'hope' value, and, second, because of the tendency for LVT to cause property prices to fall so that the rate of LVT would have to be raised in order to produce the same revenue.

The first argument is similar to the misconception described above that valuing land is subjective. The value of a site is based on the price properties actually fetch when sold, not on what it is hoped that they might fetch. At present, it might well be the case that a site is purchased at an inflated price in the expectation (or 'hope') that it can be sold for a higher price later. However, once LVT is introduced it would no longer make sense to speculate in this way, since purchasing a site would immediately make one liable for LVT, thus cancelling out any potential capital gain – especially as LVT would tend to depress the market price because it would be discounted by the capitalised annual outlay of LVT.

Turning to the second argument, this confuses market prices (or market values) with capital values. Although LVT does tend to depress market prices (which, as discussed in the main text, may be counteracted by other factors moving in the opposite direction, or may be due to factors which have nothing to do with LVT, this is not the same as depressing the capital value of a site, which comprises the market value of the site plus the capitalised annual outlay on LVT. Whilst before, the rising land value of a site (created by the economic and social activities of society as a whole) will benefit only the landowner, once LVT is introduced society will benefit, which is its prime object – the more so as the rate of LVT is raised towards collecting all of the land value (or economic rent) from land that society itself creates. In short, when assessing the capital value of a site, it has to include the capitalised annual outlay on LVT, which will increase as the rate of LVT is raised, allowing more of the land value to go to society.

Meanwhile, if it is more convenient to used rental values that is no problem. As explained in footnote 5, capital values can be converted into rental values and vice versa via the prevailing discount rate. In this paper, as noted previously, capital values are used because the general public, including politicians, are better able to relate their properties to capital values, rather than rental values (though for businesses, most of which are based on rented land, the opposite might be true).

3. A site with an expensive house (or block of flats) on it would pay the same LVT as one of similar size containing a small house, which would not be fair. This was one of the reasons given by the Burt Committee on the future of local taxation in Scotland, already mentioned, for rejecting LVT in favour of a straight property tax as a replacement for Council Tax.[42] Under the Council Tax regime, they would pay quite different amounts according to which Band they were placed in, but under LVT, the Committee argued, they would pay the same. However, this is based on a misunderstanding of what determines the value of a site. It assumes that the two sites, because they had the same area, would have the same land value. But land values are determined not only by the area of a site, and its location, but also by optimal permitted use.

If it is assumed that all sites are put to optimal permitted use – or were at the time the houses were built – then the owner of the small house would pay less than the owner of the large house on the same size site, because the owner of the small house would not have planning consent for a big house, so the land value would be less. If the owner of the small house obtained planning consent to knock down the small house and build a big one, this would raise the land value to the same as that for the site with the large house already built, and therefore the liability to LVT. If the owner of the small house (or, for that matter, the owner of the big house) obtained planning consent to build a block of flats, the land value would be much higher still (which would result in them making a large profit if they sold the site – discounted, of course, by the future outlay of LVT). In short, to a large extent, the system of land value taxation allows for properties of different sizes on similar size sites to be taxed in proportion to their size.

4. Land and property taxes are divorced from the ability to pay. It might be expected, logically, and through necessity, that people will live in homes with mortgages that they can afford, and that the value of properties, upon which land and property taxes are based, would correspond quite closely to people's income. This has been borne out by research, for instance, undertaken by the Joseph Rowntree Foundation, which found that low income households are heavily concentrated in the lower valuation Council Tax Bands. Low income households in high value properties were very much the exception.[43]

Furthermore, it needs to be stressed that under the proposal outlined in this paper, LVT is merely replacing Council Tax, and, as with Council Tax, it would represent only a small fraction of the taxes that have to be paid, either directly or indirectly (that is, about 4.5 per cent – the proportion that Council Tax currently contributes to the total taxes paid). Of course, this situation would change if the rate of LVT were raised (in parallel with reducing other taxes). However, although that may be the goal in the long run, in today's highly unequal society, it is liable to put many people in financial difficulty, and, as discussed already, is not recommended here when LVT is first introduced.

Meanwhile, a concern, often expressed, is the extent to which LVT may penalise those who are asset rich but income poor – often stereotyped as the 'poor widow' syndrome. This may arise because people with a fixed income had bought a home that was affordable at one time, but whose value, and therefore the tax liability, during the course of time had increased. Or, it may arise because a person's income had plunged, perhaps as a result of job loss, or simply retiring on a low pension. However, the incidence of such cases tends to be exaggerated by those opposed to LVT (normally the rich).

In fact, the above mentioned Joseph Rowntree study found that only around 200,000 pensioner households in Britain with low or modest incomes lived in a Band F to H property, while some 3.9 million lived in a Band A to C property. Similarly, the Centre on Household Assets and Savings Management, based at the University of Birmingham, found that only 4 per cent of those who were retired in 2010 had both an

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[42] *A Fairer Way: Report by the Local Government Finance Review Committee, op. cit.*

[43] Michael Orton, *Struggling to Pay Council Tax: A New Perspective on the Debate About Local Taxation*, Joseph Rowntree Foundation, 2006; p. 13.

income below the official poverty line and housing equity over £100,000.[44] Moreover, replacing Council Tax with LVT at an average rate of tax less than one per cent, as proposed here, would mean that only people in houses worth more than about £600,000 would end up paying more. People in small houses, which is where most low-paid and poorer people live, would pay less – and if they were in rented accommodation they would not pay anything at all.

Nevertheless, no doubt, there are likely to be special hardship cases. These could be dealt with by a scheme similar to the current Council Tax Reduction scheme, which could be retained (and improved) as long as it were needed. Second, as mentioned in the main text (see section, Easing the burden of paying LVT for homeowners) a scheme could be introduced to allow pensioners with low incomes to defer (or roll over) the payment of LVT, in part, until the property was sold or transferred to heirs. 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. (It would not be suitable for those below retirement age.) Third, people could choose, as many already do, to move to smaller homes (for instance, when their children leave home), or to an area where property prices were lower, thus releasing some of the equity that may be used for other purposes.

5. Landowners will pass on LVT to their tenants. How much rent a landlord can charge, for either residential or commercial properties, depends on a number of factors, which include the costs of acquiring properties for renting out, and of maintenance, the taxes he or she is obliged to pay (whether or not LVT), and above all, the supply and demand situation, or what the market will bear, and the state of competition, and the existence, or otherwise, of tacit collusion. The basic economic argument that LVT cannot be passed on is that the rent a landlord is able to charge is already set at what the market will bear, so that the introduction of LVT as a replacement for other taxes will make little difference.

Over time, as with all taxes, who actually pays depends greatly on the relative bargaining positions of the parties involved. For instance, in the case of Income Tax, if workers are in a strong bargaining position, employers may have to pay over the odds to compensate workers for the Income Tax deducted from their pay, so that, in effect, the employers would be paying the tax – and the opposite, if workers were in weak bargaining positions. Similarly, for VAT, whereby, if consumers were in a strong bargaining position (for instance, when supplies were plentiful), in order to sell their products, producers or suppliers would have to drop the price, in effect, absorbing the additional VAT. Similarly with rents. Landlords can only charge what the market will bear, which is determined by supply and demand, and, both before and after LVT is implemented, that would determine the rents they could charge. This would limit their capacity to pass on the cost of LVT.

6. Not taxing tenants would mean they would not be paying for services provided by local authorities. Not true. They would be paying for them through the rent they pay to the landlords. Besides, a majority of local services are paid out of general taxation at national level (for example, policing, the NHS, schools), plus contributions to local authority budgets from general taxation.

[44] Karen Rowlingson, *Briefing Paper*, Centre on Household Assets and Savings Management, University of Birmingham, September 2012. The official poverty line was defined as below 60 per cent of median income, equivalised for different household types. See also, Sonia Sodha, *Housing-Rich, Income-Poor: The potential of housing wealth in old age*, Institute for Public Policy Research, London, October 2005.

7. *It is hard to value mixed-use premises*. The taxing of mixed-use premises, which are partly a home, and partly a business (such as a guest house, those living above a shop or workshop they own, or a farm house), is often thrown up as a problem. For instance, in the scheme proposed here, businesses and residences pay a different rate of LVT. Such situations, of course, exist now, in which the residential part would be subject to Council Tax, and the business part to Business Rates. However, the Valuation Office Agency has evolved well-tried formulae to apportion the liabilities in a satisfactory way, which could equally be applied under any new tax regime. Similar formulae could be developed to deal with the liability of those living in owner-occupied blocks of flats.

8. *It is not always possible to identify the landowner*. Since it is the landowner that has to pay LVT, rather than the occupier, as now, the difficulty of identifying the landowner is sometimes presented as a problem. In fact, the registration of land is about 80 per cent complete by area, and 99 per cent complete by value. The supposed difficulty is with the large landed estates where the land has remained within the family and not been bought and sold. However, since the tenants would obviously be paying rent, the bill could simply be paid by the tenants, who could be legally empowered to deduct it from the rent. This would be backed up by making use of Council Tax and Business Rates databases, which must have records of where to send the bill when tenants move out. In the case of agricultural land, since the owners are in receipt of subsidies under the Common Agricultural Policy, the Department for Environment, Food and Rural Affairs have records of ownership.

Meanwhile, the process of registering the land that is not yet registered could be accelerated by requiring owners of unregistered land to register it by a certain date, after which local authorities would be given the power to acquire any unregistered land and lease it out.

9. *Only the wealthy landowners should pay LVT*. This would be impractical. First, it would necessitate the identification and assessment of all their individual plots of land scattered around the country, which would be costly, and, worst of all, subjective. If all land is valued, as described in this paper, this would not only be based on hard data, but also would cost less (using Geographical Information Systems and mass assessment techniques) than assessing those individual plots (assuming that they could be properly identified). If LVT were universal, those big landowners would automatically be charged, even if not all the land they own can be identified, because, as noted above, the LVT bill could merely be sent to the tenants, who would be empowered to deduct it from their rent bill.

Furthermore, this would not address the difficult problem highlighted in the main text of the vast amount of economic rent banks appropriate through the current system, which can only be resolved by including all owner-occupied housing into a system of land value taxation. It should also be noted that following the introduction of LVT, as proposed here, the poorer sections of society who have to rent their accommodation would benefit because they would no longer be liable for a property tax.

10. *Land values are too dependent on planning consent*. Land values are, of course, highly sensitive to planning consent, and can change very considerably once a new use has been agreed. The problem here, it is sometimes said, is that the granting of planning consent tends to be decided behind closed doors by Development Control Committees (the bodies responsible for the granting of planning consent, or otherwise), which, moreover, are often subject to intense lobbying, threats or even bribes by powerful vested interests seeking planning consent. In fact, the law requires that Development Control

Committees work in public. Furthermore, when an application for a change of use is made, Development Control Committees are obliged to give people and businesses in the neighbourhood, and the public in general, the opportunity to object or comment. It is therefore nothing like as opaque as is sometimes portrayed. And there are appeals procedures.

It is true that deals are often done behind closed doors, but ultimately the planning approval has to be given by a majority on the Development Control Committee, or by the Secretary of State if an application is 'called in', or the developer appeals against a refusal. On the other hand, appeals procedures are very one-sided in that there is no provision to appeal against an approval, and if an application is approved on appeal, the council concerned may have to pay the developer's costs, which is a big disincentive for cash-strapped councils to reject an application. In short, there is indeed plenty of room for improvement in the workings of the planning process. But this is an issue separate from that of LVT – and there are groups working on it.[45]

Meanwhile, only a minuscule proportion of land at any one time is involved in planning applications for some kind of change of use. The value of all other land would be based on its current use. Second, if landowners (or speculators) are sitting on land in the hope or expectation that they might profit from a change of use, they would still have to pay LVT on the land in line with its current designated use. Furthermore, there is nothing to stop a local authority designating a site for a new use, after which the landowner would be obliged to pay the full LVT based on that re-designated use.

11. <u>LVT would lead to too much new construction or 'overbuild'</u>. Here it is argued that landowners will seek to maximise revenue in order to raise the funds to pay the LVT (over and above their 'normal' profit). Or it may be said that public parks or private open spaces, or the Green Belt, might be sold off or built over. Or that land used for public services, such as state schools, hospitals, fire stations, might be sold to the highest bidder and the services relocated to lower value land elsewhere. However, as just noted, all developments on land depend entirely on planning consent as determined by the local authority, or sometimes central government. This is therefore irrelevant to the introduction of LVT.

On the other hand, some may argue, local authorities may still be tempted to grant consent to 'overdevelop' a site in their quest to maximise revenue from LVT. In fact, this generally would not be in their interests from a revenue-earning perspective, because parks and other public amenities tend to enhance the value of residential properties in their vicinity, and therefore the revenue from LVT, which would be greater than the yield of LVT if those sites were developed.

Moreover, in any case, as noted above, such decisions would likely be challenged by local residents and institutions, as well as by central government – related, of course, to how well developed is the democratic process of granting planning permission. As noted already, this is a separate issue, but it is at least nominally in the public domain.

<u>12. LVT will increase the costs of public services because of the LVT they would have to pay</u>. Land used for public services – for example, state schools, hospitals, fire services, and so on – irrespective of who owns the land, in effect, has zero value, because it cannot be bought or sold (unless planning consent is granted for a change of use, which may be challenged in any number of ways). Such land therefore would not be subject to LVT. However, if the land is actually privately owned and the taxpayer is paying the rent, there would indeed be a case for charging LVT to the owner. It is true that local authorities are often

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45 For instance, Planners Network UK (PNUK), which has published: *A manifesto for planning and land reform*. See http://www.pnuk.org.uk

under considerable pressure from developers in areas where land values are high seeking a change of use, perhaps with the offer – for instance, in the case of building on playing fields – to provide land for alternative facilities in the Green Belt. But this is a separate issue, not to do with LVT.

13. LVT will entrench 'ghettoisation'. This is the argument that desirable localities with high land values would tend to attract the rich, leaving the poor to find accommodation in poorly endowed or blighted areas with low land values, but with more affordable LVT. Such 'ghettoisation', and the gentrification of neighbourhoods where the poor once found affordable accommodation, would not be a consequence of introducing LVT, but a reflection of the changing structure of society.

But LVT, over time, would tend to smooth out the differences, since areas with low land values would tend to attract investments, making such areas more desirable, with better job opportunities, but without pushing up the market prices of properties. All would depend, however, on other government policies, through which this issue needs to be addressed.

14. LVT is only a second best option and the nationalisation or state-ownership of land would be better. This is based on the fact that land is a 'gift of nature' and that its benefits should therefore go to society as a whole, rather than to individuals who have become private owners of land by fair means or foul.

It is true that, if starting from scratch, the state ownership of land could be a considerable advantage. People and businesses could be charged rent for the land that they occupy based on its value, and the revenue used to invest in public services and other productive activities for public benefit. This would ensure that society as a whole, rather than private landowners, would benefit from the increasing value of land arising from the social and economic activities of society.

However, state ownership by itself is no guarantee. Without measures taken to value land in relation to its location and quality, and collecting the rent accordingly, those occupying the land will benefit at the expense of the public at large. Moreover, land will tend to be used indiscriminately, irrespective of its value. This happened, for example, in the former Soviet Union, where all land was state owned, and, moreover, treated as a free good. Consequently, there were many instances of land being used inappropriately or inefficiently. In particular, it was common practice for enterprises (almost entirely state owned in the Soviet Union) to hold land vacant indefinitely in case they might need it later. This meant that the rest of society lost out from making the best use of what was often valuable land in a prime location for more beneficial purposes. This also distorted investment decisions, which meant that capital was not necessarily invested in productive activities that made the best use of the land that was available.

Meanwhile, in countries such as Britain, where the private ownership of land is thoroughly entrenched, would nationalisation, in which all private titles to land were abolished and land declared public property, be the most effective course for reclaiming land value for public benefit? Is it even necessary? If a political party included in its manifesto land nationalisation without compensation, one needs little imagination to picture the propaganda war that would ensue – paid for by the wealthy 0.5 per cent of the population who own most of Britain's land. Britain's 17 million homeowners could easily be persuaded that the government was about to steal the land that they had bought in good faith along with their homes, even though the state ownership of land would make no difference at all to their right to the land.

Alternatively, if compensation were offered, and if based on market values – which inevitably would incorporate a speculative element – the amount of money involved would be huge. It would also be immoral. As Henry George pointed out, 125 years ago, in his book, *Progress and Poverty*:

> '…to buy up individual property rights would merely be to give landholders in another form a claim of the same kind and amount that their possession of land now gives them. It would be to raise for them by taxation the same proportion of the earnings of labour and capital that they are now enabled to appropriate in rent. Their unjust advantage would be preserved…'

In fact, the key issue is not the confiscation of land itself, but that landowners should pay for the land that they occupy according to its value, and the revenue used for public benefit. And the most effective way of doing this is LVT, which, as pointed out already, is not really a tax at all, but a payment to society for the benefits of occupying a particular site. By gradually raising the rate of LVT such that eventually it collected the whole land value of a site, land ownership would begin to lose all significance. Then, the only point of owning land would be to use it. In other words, the income and profit from land would derive solely from the particular economic activity or buildings on the land. There would be no gain simply from owning land, as now, which is at the expense of the rest of society. In effect, rather than nationalising land, the object of LVT is to nationalise the economic rent from land, which should belong to everybody.