THE PROFESSIONAL LAND REFORM GROUP

Response to the consultation on the proposal from HM Treasury, HM Revenue & Customs and the ODPM for the introduction of a Planning Gain Supplement.

Summary:

The Professional Land Reform Group (PLRG) was formed two years ago by professionals concerned about the lack of debate in the UK and overseas regarding the introduction of sensible land policies.

We welcome the Government's desire to draw attention to the land problem and its willingness to engage in genuine consultation on the matter.

However, for the reasons we explain in more detail in this document, we believe that the approach adopted in this consultation exercise, namely a one-off Planning Gain Supplement (yet another Development Land Tax) is fundamentally flawed and will not achieve the objectives stated by John Healey MP and Yvette Cooper MP in the foreword to the consultation document:

- "to help more people realise their housing aspirations"
- "seeking to build sustainable communities"
- "funding the infrastructure that makes growth possible and acceptable
- "a portion of the wealth created by the planning system should be released for the benefit of the wider community"
- providing "a mechanism to help finance the investment needed to offer greater housing opportunities for everyone".

If the government is serious in its aspirations listed above, and also wishes to shift the UK economy into a more productive mode then we strongly recommend that you seriously consider the alternative option of adopting an "Annual Location Benefit Levy" on ALL sites (otherwise known as an "Annual Land Value Tax" or "Annual Site Value Rating").

The Government is wrong to introduce a new tax with wide ramifications on the whole economy on the strength of a single study by one individual whose terms of reference concentrated only on the housing use of land and not on the many other uses that land is required for, such as industry, commerce, farming, leisure etc.

The PLRG's direct response to Chapter 7 "Issues for Consultation":

Q 2.1 Box 2.2 exposes the Government's fundamental misunderstanding of the economics of the land market.

To use the definition "land includes any development already on the site" is how land or property is described in law but in economic terms confuses a factor of production “land”, which is provided by nature at no cost, with “development”, which is a man-made improvement to the site and requires the use of labour, capital and natural resources to create.

The use of this definition in this context will mean that if the building already on the site is in productive use, and therefore an asset, then the value of the property (land and development) will be higher than the land value alone and will give a higher Current Use Value (CUV) and hence a lower yield for PGS.

However, if the “development” is a ruin that needs to be demolished for the planning consent to be exercised, then this will create a lower CUV and hence a higher PGS liability.

If the cost of redecoration or refurbishment of an otherwise unwanted building on the site is less than the PGS saved by raising the CUV then the press will make hay, with vivid images of otherwise useless buildings, about to be demolished when the planning consent is implemented, being tarted up by speculators as a tax dodge!

The concept of only taxing the difference between CUV and Planning Value (PV) ensures that the existing land value (which the landowner has not created) escapes taxation. For example, immediately after the announcement of the successful London bid for the 2012 Olympics, land values in East London began to rise dramatically.

Obviously, the landowners are not responsible for this windfall which they enjoy and if PGS is introduced then all of this increased land value will be represented in the Current Use Value of the site and will escape PGS.

This could easily be avoided with an Annual Land Value Tax on all sites, with the valuation reflecting the optimum permitted use of the site.

Q 2.2 You need to avoid the possibility of a landowner applying for and gaining planning consent to build, say, 300 houses but not executing the permission, then successfully applying again for 301 houses. The CUV is for 300 houses so that PV is only for one house extra!

Q 2.3 The current use value will reflect the speculative or hope value that a landowner charges a potential purchaser, not just the “actual” value of the site. Hence by using one-off capital values and NOT annual rental values the PGS will miss much of the uplift that it tries to tax. For example, land values in the Stratford area of London, rose dramatically following the announcements of improved rail links in the area and the successful bid for the 2012 London Olympics. This new higher figure will be the “Current Use Value” from which any PGS will be calculated and therefore the tax receipt will be lower than if the whole PV were used in the calculations.

Q 3.1 Whenever the payment is timed PGS will be avoidable by the landowner or developer not actioning the event which triggers the liability, i.e. not seeking planning consent or not commencing the development. The way to avoid this is to introduce an Annual Land Value Tax (LVT) on ALL sites irrespective of the development process.

Q 3.2 HMRC. However, PGS will hit developers at the time of maximum risk and cashflow problems. Their builder or architect may go bankrupt, the international economy (e.g. oil price) may change, interest rates may change and affect their financing or their client's ability to borrow, Government tax or regulatory policies may change or a shift in market sentiment may leave the developer with an unfashionable building.

Q 3.3 If larger developments are treated less favourably than smaller ones then developers will divide their land into smaller parcels and treat each parcel as separate planning applications on adjacent sites.

Q 4.1 To encourage regeneration you need to introduce an annual charge based on a valuation for the optimum permitted use, irrespective whether the development has taken place or not (i.e. LVT!).

Q 4.2 Any small small-scale development threshold will encourage the division of sites into smaller parcels to avoid the tax, e.g. a developer could develop 300 individual houses on 300 sites rather than one large development. Landowners' families have owned the land for many generations and would be quite happy to eke out their use of a site in order to avoid the tax.

Q 5.1 The loss of wider planning obligations than are currently created needs to be offset from the return from PGS.

Q 5.2 Infrastructure should be financed by LVT. PGS will not contribute towards the cost of a new railway station built soon after the development on a site has taken place and yet the site will increase dramatically in value.

Q 6.1 Site Value Rating (the local form of LVT) would be the best method for recycling land wealth (from ALL sites) for local projects.

Q 6.2 Site Value Rating collected regionally.

Q 6.3 Through adequate and genuine consultation by the spending authority.

Comments re specific paragraphs in the PGS Consultation Document:

Page 3. "PGS …… is a mechanism to help finance the investment needed to offer greater housing opportunities for everyone".

This is just not true. Vic Blundell's paper on previous development land taxes (attached) shows clearly how landowners have avoided the tax by avoiding the event which triggers it.

Far from helping house buyers, PGS will lead to landowners withholding their land from the market and thus create a shortage of supply and hence higher land prices which will feed into higher costs for homes and other uses of land. This will make homes even more unaffordable and prevent marginal firms engaged in commerce of all sorts from commencing operations or expanding, with a consequential loss of jobs.

In fact there is evidence, quoted in the Financial Times, that landowners are already withholding their land because the PGS is being consulted on.

1.6 Box 1.1 "the granting of residential planning permission would be contingent on the payment of [PGS]". If the Government is prepared to extend the Barker tax from residential to all developments, why not extend it further so that an annual payment is made for the full land value on all sites?

PGS will only be collected once in the lifetime of a building (say once in 60 years) whereas annual LVT would provide an annual revenue stream that the Treasury could use to reduce other taxes with deadweight penalties on the economy.

In addition, PGS ignores the fact that a good development on which PGS has been paid can raise the value of all adjacent sites or even all sites in the same neighbourhood on which no PGS is liable: an unearned, untaxed gift to other landowners.

1.9 "PGS would be set at a modest rate". If the PGS rate is small and there are many reductions from the amount collected, then the question must be asked – is it worth implementing PGS?

Factors that can reduce net PGS income:

- Fewer than 1% of sites come up for development in any one year – Why leave the other sites untaxed?
- Developers can deduct remedition costs. (para 2.8).
- Development costs can be deducted (para 2.8).
- Reduced S106 receipts to local authorities from scaled back planning obligations. (para 5.14).
- Cost of remaining Section 106 obligations (para 2.8).
- Lower rate for Brownfield Sites (para 4.5).
- Minimum threshold for smaller development projects (para 4.8).
- Reduced receipts from Capital Gains Tax paid by landowners (para 4.12)
- Less corporation tax and income tax as PGS paid by developers may be an allowable business expense? (4.11).
- Admin costs of Government.
- Admin costs of developers.
- Transitional relief for holders of land banks (Box 1.1).
- Landowners avoiding PGS by not commencing development.

1.10 "The Government believes it is fair in principle for the wider community to share in the wealth created by planning decisions in their area."

Planning decisions do not create land wealth, but they do give landowners permission to tap into the market demand for the use of a site. But what is so special about planning decisions? There are many factors, all outside the control of any one landlord, that give rise to land values, e.g.:

• Natural Features: climate, soil fertility, flood drainage, proximity to a stream, river or ocean, a natural harbour, scenic views, the nature of the site etc.

• Wider Economy: international stability, terrorism, war, peace, oil prices, access to trade, raw materials, healthy national economies, taxes, subsidies, free trade, population changes, crime reduction, tourism, interest rates, skills and training of workforce etc.

• Local Services: transport, NHS, education, police, fire, parks, open spaces, leisure facilities, street management, access to rivers and canals, public health and public cleansing, water supply, sewerage, gas, electricity, telephones, cable, satellite, post, shops, job opportunities, gentrification, docks, airports, vandalism, heritage sites, planning consents.

• Recent Projects: such as the Eden Project in Cornwall, the Jubilee Line Extension, Terminal 5 at Heathrow, the winning of the 2012 Olympics for London all have an effect on land values.

Of all these factors (all outside the control of the individual landowner), why is it only "fair in principle for the wider community to share in the wealth created by planning decisions" and not share in the wealth arising from the 101 other causes of rising land prices?

1.14 These objectives are admirable, but will not be met by PGS. However, LVT is the solution to achieving all of these four objectives.

1.15 It is quite clear from these proposals that you have patently failed to learn the lessons from "previous attempts to capture gains from development through development gains taxes"! Otherwise, you would not be repeating the same mistake but following the example set by Harrisburg in the USA where a small LVT has had a dramatic boost for the locality.

1.19 There is no reason why LVT is inconsistent with the planning system. Where is your (or Kate Barker's) proof of this assertion?

A fundamental error in your logic is demonstrated by the statement that the planning system "determines the value of land". If this were the case a planning permission for an office block on Mount Snowdon would create a high land value there, the same as it would in Westminster. It is the access, the population, the transport, and the market demand for a particular use on a site that creates its value. Planning consent can release or suppress land value – It NEVER "determines" it!

It is true that LVT will (could) “have widespread repercussions for the broader tax system and local government finance”. These repercussions would be totally positive, so why not embrace them?

2.3 “Increases in land values can occur throughout the planning process”. So now you want to tax only increases, and only the increases that accrue because planning releases market value. This is the economics of the kindergarten, e.g. why not make the PAYE income tax system comparable to PGS and only tax “pay increases”. We would all keep our basic wages tax free and only pay income tax on our pay rise, NOT annually – but once in 60 years!!

2.5 Box 2.1 The PGS calculation. PGS liability = PGS rate x [PV –CUV].
Why deduct CUV and not replace “uplift” with PV on all sites?

2.12 “Non-residential values can vary …..”. Kate Barker only suggested PGS for residential planning applications, so why not have a study for collecting the values from non-residential sites before applying PGS to this category of land. This study should include in its terms of reference a remit to study LVT as called for by Richard Rogers in his Urban Task Force Report?

Page 37 A.6 “the Government accepted that it would be fair in principle to capture some of the uplift in land value associated with planning permission”. If this is the case, then surely it is fair in principle to capture some of the land value that exists on ALL sites – not just those applying to develop? In fact, by NOT applying an LVT to ALL sites the Government is being UNFAIR and penalising only those landowners who are seeking planning permission to develop! The very people who are trying to improve our neighbourhoods and provide the jobs, homes and facilities we require whilst rewarding indolent landowners with a zero tax bill if they keep their land idle!

Page 38 A.8 Barker did not have a remit to look beyond housing so in respect to most land uses her report is flawed.

Page 38 A.9 These three options are not comprehensive. LVT should have been one of the options considered.

This Government insists that Local Government should conduct best value reviews that include adequate and full consideration of alternative options. It is quite clear that LVT has NOT been fully appraised and compared to PGS. We suggest that at the very least a fully study of LVT is conducted that examines UK and overseas experience of land value capture and that the Treasury computer model of the economy is used to judge the effects of both PGS and LVT on the British economy and compare which gives the best value for money.

Page 39 A.16 Because PGS is only concerned with difference between the land value immediately before and immediately after planning permission was granted it misses totally any future increase in land values on that site which arise from the action of others. LVT, collected annually, would also collect a share of future land value increases.

FINAL THOUGHTS

1. Why only tax development sites when all sites enjoy unearned land values created by the community?
2. Why introduce a tax that can easily be avoided by doing nothing?
3. Why not introduce LVT with an annual charge that can NOT be avoided?
4. Why introduce a single, small tax receipt in the lifetime of a building when LVT would provide an annual income?
5. Why choose a one-off tax valuation at the time of planning permission when with LVT annual revaluations would always collect a share of current value and therefore a share of future land value increases?
6. Why not introduce LVT which incentivises development rather than PGS which will deter development?
7. Why concentrate on the 1% or less of land area that comes up for redevelopment in a year and ignore the other 99%? It's like trying to tax an ant in the room and ignoring the elephant!
8. Why encourage urban sprawl when an annual charge will ensure that the most valuable land (and therefore the sites paying the most tax) in towns and cities are promptly brought forward for development?
9. Why bother when the net receipts will be small?

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