Chapter 6: Land and property taxation

The LLC welcomes the recognition of many of the advantages of Land Value Tax in paragraphs 6.41 to 6.50.

What is puzzling is the definition of “economic rent” as distinct from “rent” in the footnote to paragraph 6.42...

“Economic rent is a complex economic concept and definitions vary. Broadly speaking it means the difference between the return made by a factor of production (i.e. land, labour or capital) and the return necessary to keep the factor in its current occupation”.

Firstly, land is not really a factor of production at all, unless it is a source of raw materials (mineral deposits and nutrients), in which case the raw materials are a factor of production: the land is just the medium that holds them.

Secondly, there is no need to distinguish between “rent” and “economic rent”. Put simply, the profits of a business are split three ways:

- Labour and entrepreneurial skill is rewarded via wages or profits. The distinction is a legal rather than an economic concept. Unless a business has a protected monopoly position, “profits” in the narrower sense will be competed away.

- Capital invested (machinery, buildings, intangible assets) is financed by equity or loans. Shareholders and lenders receive a return on capital. Whether the return on capital is calculated as a percentage of the cost/value of the assets used in the business, or as a percentage of the value of the share/loan capital is not so important.

- The land-owner receives rent. Of course, the land-owner usually owns the buildings as well and does not distinguish between the true “rent” for the land and the “return on capital” on the cost/value of the buildings and improvements.

Thirdly, the footnote suggests that “economic rent” is the balancing figure between the return that land earns less “the return necessary to keep the factor in its current occupation”. Another definition is that economic rent is actual return less the cost of bringing the land into use or keeping it in use. As this cost - from the point of view of the landowner - is usually nothing or negligible, then actual rents for the land will always be much the same as “economic rents” for that land.
Chapter 7: Household taxation and local charges

The LLC also welcomes the recognition of many of the advantages of a “point value property tax”, in other words, an annual ad valorem tax calculated as a small percentage of the total capital value of residential properties (we prefer the term “progressive property tax”), which, given where we are with Council Tax, would be an important step towards true Land Value Tax.

Sir Michael Lyons admits in paragraph 7.15 that he was “struck by the strength of feeling that residential property taxes provoke. My research found real resistance to the idea that tax bills should reflect property values”.

There is always popular resistance to changes in taxation – the losers always cry louder than the winners. However, supporters of reform can take heart from paragraph 7.67, which notes that an annual charge of 0.64 per cent of capital value would raise the same amount as council tax (before CTB); that almost 60 per cent of households would pay the same as or less than now; and that only 18 per cent would pay more than £3 per week more than now.

Paragraph 7.68 explains that one of the advantages of a progressive property tax would be to “embed incentives for local authorities to invest in the desirability of their area for residents, in terms of service quality and wider well-being which can be reflected in property prices”.

These two paragraphs apply just as much to Land Value Tax as they do to a progressive property tax!
Chapter 8: Business Taxation

Business rates are basically a progressive property tax (see above), and with a few sensible reforms, could easily become a true Land Value Tax.

The LLC welcomes Recommendation 8.5, which suggests that the exemptions for derelict and brownfield sites should be scrapped. Assuming that the derelict buildings have little or no value, any tax on such sites would of necessity be a tax on the underlying site-only land values – why shouldn’t the same apply to occupied and developed sites?

Paragraphs 8.108 to 8.111 recommend that revaluations be carried out much more frequently, and that a constant multiplier be used, which would “make the tax more responsive to the actual state of the property market and could have economic advantages by reducing the burden of taxation on business in economic downturns”. Notwithstanding that Land Value Tax is not a tax on business, but a tax on land ownership, paragraph 8.110 then spoils this logic by claiming “this might make things harder for business during upturns”. The effect would in fact be minimal – sites would only increase in value if local business profitability improved. If profitability improves then there will be more money to pay any extra tax, in much the same way as a company’s corporation tax bill rises in good years and falls in bad ones!

Agricultural land

The LLC also welcomes paragraphs 8.94 to 8.96, which suggest that the exemption from Business rates for agricultural land should be removed or at least restricted. Here the report misses the elephant in the room – agricultural land is not only exempt from Business rates but it benefits from a negative Land Value Tax in the form of CAP payments and other subsidies. A first step towards imposing Land Value Tax or Business rates on agricultural land (which would amount to much the same thing) would be to curtail the largesse of the CAP subsidies, which quite clearly do not benefit the farming industry as such but are siphoned off in the form of higher rents.

Paragraph 8.96 acknowledges “Ultimately, the incidence of Business rates falls on the owners of business assets” without realising that the equal and opposite holds true for asset-related subsidies (such as CAP payments) – when such subsidies primarily benefit the owners of those assets, in this case land-owners. The paragraph goes on to say that reforms should “avoid a situation where otherwise viable and economically beneficial agricultural business activity is curtailed”. Average rents for tenanted farmland are around £60 - £80 per acre and CAP subsidies are around £50 per acre. If CAP subsidies were scrapped, then rents per acre would fall to £10 - £30 per acre in the long run (this could be speeded up by enacting rent restrictions in the short term) and tenant farmers’ net profits would be unchanged. The incomes of owner-occupier farmers would of course reduce, but, as they would still have slightly higher incomes than tenant farmers (owner-occupiers do not have to pay rent), it is unlikely that many would go out of business purely as a result of this change.