5. Differences between a land value tax and other taxes on land and property

Up to now, governments in Britain have shied away from introducing a full-blown system of land value tax. Instead, they have sought to reclaim land value for public benefit through various piecemeal measures. These measures have raised nothing like the revenue that would be possible from LVT. Moreover, they have proved costly to implement, not least because the legislation involved has been complicated, and subject to complex sets of rules and regulations, with various exceptions and offsets. Moreover, they have often have had effects opposite to what was intended.

The measures include: development land taxes under various guises, which are one-off taxes on the uplifted value of sites following the granting of planning permission for a new use; the stamp duty land tax, paid when properties change hands; Section 106 agreements, in which developers are required to finance infrastructure or affordable housing or other things as a condition for the granting of planning permission, and therefore are a form of tax; so-called planning charges or community infrastructure levies, which have partially replaced Section 106 agreements; and a new empty buildings tax.

The council tax and the national non-domestic rates, which are largely taxes on property – though paid by the occupiers of the property rather than by the owners – should also be included, since they involve an element of tax on land values. The special problems with these taxes are discussed in Section 6.

Development land taxes

What has misled politicians into supporting development land taxes – including the so-called 'planning gain supplement', proposed by the Barker Review on housing supply in 2004, which the present government was considering introducing, but has since abandoned – is their focus on the huge jump in land values when planning permission is granted for a new use. For example, if a landowner gains planning permission to convert agricultural or commercial land into residential use, he or she could be in for a windfall gain of several million pounds. Development land taxes are perceived as a means of reclaiming a significant portion of that gain for public benefit.

However, the amount of revenue such taxes can raise, compared with LVT, is severely limited. First, a development land tax is only collected when a site is sold or developed, and therefore only taps land value on a few sites at one point in time. In contrast, LVT, instead of being merely a one-off payment, would become due every year in perpetuity. Therefore, the revenue stream for public benefit would far exceed what it would be from a development land tax. Moreover, the LVT would be paid not only on the increased value, but also on the value of the land before planning permission was granted – the so-called residual or 'current' value.

In addition, the new development is likely to bring new economic and social activities, or improved transport connections, to the area, which would increase the land value of neighbouring sites, so that additional LVT would be collected from these properties, too. In short, if LVT were in place, all of the uplifted value would be recovered, perhaps many times over, because the LVT would rise in proportion to the increased land value once planning permission was granted. Moreover, the extra LVT would be due immediately, thus providing a big incentive for the site to be developed as quickly as possible.

Meanwhile, any windfall gains following the granting of planning permission as a result of the land being sold on could be recovered through other taxes – such as capital gains tax or income tax. This would be fair because, much of the windfall gain would have arisen from the increased value of the land created by planning authorities acting on behalf of the community, so that the tax would merely allow the community to reclaim it back for public benefit.

Another major problem with development land taxes, as evident from the whole history of introducing such taxes, including the Development Charge in 1947, the Betterment Levy in 1967, and the Development Land Tax in 1976 – all brought in by Labour governments, only to be abolished a few years later by incoming Conservative governments – is that they tend to inhibit the development of land. That is because owners of land can withhold land from use without penalty, but are penalised, in effect, as soon as the land is brought into use. In addition, through tacit collusion, landowners and property developers can withhold land to pressurise governments, or future governments, to repeal the tax. Meanwhile, they can simply sit back and watch their landholdings rise in value as the demand for land goes up. All these things happened when those development land taxes were introduced previously. Furthermore, because of various kinds of exemptions and offsets, the taxes turned out to be severely complicated and costly to implement, and the revenue that they generated was considerably less than had been expected.

Stamp duty land tax

The stamp duty land tax is charged on properties over a certain value when they are sold (currently those over £125,000). Nominally, it is paid by the buyer, which, in effect, makes properties more expensive to acquire than they otherwise would be. However, if it is a buyer's market, the tax, would tend to fall more on the seller, who would have to reduce the price to compensate for the tax that the buyer has to pay.

The main problem with the stamp duty land tax is that it discourages the change of ownership of properties. In effect, therefore, it penalises those wishing to move to a more convenient location, or more suitable premises, and therefore encourages the inefficient use of land and buildings.

Section 106 agreements

Payments or investments under Section 106 agreements, which oblige developers to finance infrastructure, or affordable housing, or other things, are essentially a form of development land tax. They therefore have all the disadvantages of such a tax, as just discussed. A further problem 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 are not even using such agreements.

Meanwhile, 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, perhaps 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 developments being proposed.

Furthermore, as pointed out by Tony Vickers (in *Location Matters: Recycling Britain's Wealth*, Shepheard Walwyn, 2007), because of the opaqueness of Section 106 agreements, it is often hard to dispel the whiff of corrupt 'paying for planning permission', which will often favour big national and international property developers, at the expense of local builders who might have a more genuine interest in the local community.

Planning charges

Now that the government has dropped the 'planning gain supplement', its latest proposal is a system of tariffs, or 'planning charges', also known as 'community infrastructure levies' These are similar to the infrastructure tariff that has been operating in Milton Keynes for some time, which is a levy proportionate to the size and scale of a development. Again this is a form of development land tax. Under the system, according to the government's current proposals, in exchange for receiving planning permission, developers have to agree to pay planning charges when told to do so by local authorities, so that infrastructure can be provided. The system, therefore, would partially replace Section 106 agreements, which would be curtailed to the provision of affordable housing and costs associated with particular sites.

However, under such a system, as in the case of development land taxes in general, landowners and property developers would still be able to withhold land from use, watching its value rise, simply by not seeking planning permission. And, of course, the planning charges are again merely a one-off payment, and paid only by the developer, and not by neighbouring properties benefiting from the development, which limits the amount of revenue that can be raised.

The empty buildings tax

This new tax on empty commercial buildings, which came into effect in April 2008, is designed to penalise speculators – landowners and property developers withholding land and buildings from the market in the expectation of obtaining higher prices later – and to encourage investment by making it easier for businesses to acquire premises more cheaply. However, this tax is likely to have an effect opposite to that intended.

In particular, in order to avoid the tax, developers have threatened simply to knock down the buildings, leaving derelict sites rather than keeping the buildings available for rent, perhaps on short-term leases while planning permission is being sought to upgrade the buildings, or making some other use of the land.

If LVT were in place, the empty buildings tax would be redundant, since landowners would have to pay LVT irrespective of whether there were buildings on the land. Property owners therefore would have an incentive to let the buildings in order to offset the tax, or else sell the site to others who were prepared to make the necessary investments to make the best use of the land according to prevailing planning regulations. And, of course, unlike the empty buildings tax, LVT would encourage brownfield sites already cleared of old buildings, and land banks held by property developers, to be brought into use.

Conclusion

LVT would obviate the need for development land taxes in whatever guise, and it would have none of their adverse impacts on land use, and on the economy. On the contrary, LVT would help boost economic development, and allow the land that is available to be used more efficiently. Moreover, LVT has a far greater revenue-earning potential, which would provide the government and local authorities with funds to make the necessary investments in infrastructure and public services for the benefit of everyone, and, at the same time, would allow other taxes that have an adverse impact on the economy, and on welfare, to be reduced or withdrawn.