**Labour Party’s Industrial Strategy Consultation** labourbeis@labour.org.uk

**Submission from the Labour Land Campaign (www.labourland.org)**

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| Would you like to be kept up to date with the consultation? | yes |
| We might use quotes from your submission. Is this OK? | yes |
| If yes, can we use your and/or your organisations name? | yes |

The Labour Land Campaign (LLC) is a broad left voluntary organisation that conducts research into and campaigns for a fundamental and lasting solution to the causes of individual, regional, national and international social and economic inequality and injustice by advocating a shift in taxation off production and work and on to land and other natural resource wealth. Because our work is so specific, we do not consider it appropriate for us to respond to the detailed questions posed in this consultation document. We therefore make our submission in the statement below which we feel offers answers to how a Labour Government can encourage a thriving, innovative, environmentally friendly and sustainable business sector that is taxed fairly and one which embraces worker and consumer co-operatives, small businesses and partnerships and genuinely self-employed people. Also, one where workers are valued and trained appropriately and where wages properly reflect the skills and talents of all of our workforce and where those providing and receiving public and private services are deemed to be more important than the making of profits.

The Labour Land Campaign (LLC) argues that the Labour Party can only realise its vision for a “high-skill, high-wage, high-productivity economy” if it first examines the root causes to the UK’s poor productivity performance, how our skewed economy has arisen and how particular regions of the UK suffer economic deprivation. Then a Labour Government will be properly informed and prepared to implement sound policies that will rectify the underlying causes accordingly.

Major economic barriers facing government and business include:

1. our skewed and inefficient tax system that results in a deadweight loss to our economy. (eg the effects of vat depressing trade and business rates on manufacturing plant).
2. huge direct and indirect subsidies to already rich individuals and businesses at the expense of unemployed people, underemployed and low paid workers and regions of deprivation;
3. unaffordable business premises to lease, rent or buy;
4. higher education and training courses being unaffordable for many;
5. lack of good investment by successive governments in heavy industry, public infrastructure - including public transport and rail networks, and in renewable energy;
6. our economy being controlled by globally owned enterprises obsessed with profits at any cost that have destroyed small and medium sized businesses along with good and secure pay and conditions for those working in the UK;
7. more and more homes becoming unaffordable to rent or buy, meaning many workers are prevented from living in areas of their choice denying them full and productive employment and denying employers access to the best workers for jobs.

***From our research and work, LLC can show that these issues will only be permanently resolved if there is a fundamental shift in what is taxed to ensure there is a sustainable source of income for local and national government investment and for businesses to be incentivised to invest in their staff, in technology and to set up and expand in areas and regions that currently suffer economic deprivation.***

The UK’s tax system needs to change

Current local, regional and national taxes are inefficient, distort behaviour and are often avoided or evaded by businesses and by individuals. Consequently, our tax system damages the economy, discourages good investment, penalises worthwhile work, and skews the economy in such a way that it actually creates unfair advantage to rich individuals, global corporations and those who claim ownership of land and other natural resources.

Years of under-funding for maintaining, renewing and expanding infrastructure all over the UK has resulted in a hotchpotch of funding policies that have not provided sufficient income for either capital or revenue expenditure needed. However, there are examples of how a secure source of funding can be achieved for capital expenditure that should be used to form the basis of a reliable, fair and sustainable source of public sector income to pay for building, maintaining and running all of the UK’s infrastructure. For example, good public transport benefits not just its users but also owners of land affected by each scheme because the demand to locate in the catchment area results in higher land value and therefore in land prices. The LLC argues that by recognising this effect on land value, land wealth should be used as the basis of public expenditure thus re-cycling the economic benefits that public investment generates instead of it going as unearned income to owners of land. By shifting taxes off production and wages and onto unearned land wealth, a permanent income stream would be generated to pay for all public services whilst encouraging private investment into business instead of into land speculation and would greatly rid individual and regional inequality and poverty whilst also protecting all green land from speculative building.

***(We would welcome the opportunity to discuss these arguments in detail but see Appendix 1 for a summary of the advantages of why at least Business Rates should be replaced with an annual Land Value Tax)***

**Business Rates** are based on valuations that include the building value and fixed plant in heavy industrial buildings such as steel works. Supermarkets are able to take advantage of the valuation process by siting their shop as far from the road serving it as possible. Owners who keep their development sites idle pay no Business Rates; land-speculating owners make their buildings unusable by destroying them in order to avoid paying Business Rates even though they expect the police, firefighters and roads to be in place and maintained by those who do pay local and national taxes. Because land values and taxes are inversely related, any Business Rate reduction results in an increase in land prices and ultimately in rents thus benefitting the owner and not business tenants/lease-holders.

**VAT, Income Tax, Corporation Tax and Employers’ National Insurance** distort the economy because many individuals and businesses avoid or evade paying them leaving those who do pay their fair share of taxes to pick up their bill. VAT is a particularly bad tax not only because it can be avoided/evaded but also because it encourages many businesses approaching the threshold to slow or stop trading in order to avoid paying VAT on their whole year’s income. (This behaviour is easily observed in tourist areas where to avoid reaching the VAT threshold, many small businesses close for the winter period and workers are forced onto benefits for their income.) For businesses in depressed areas, business taxes work against those businesses that do invest there be they small enterprises or large ones. Their marginal rate of tax remains the same as in prosperous areas but they do not enjoy the same level of access to public transport; customer footfall; to clients; to skilled employees or other businesses as do those in thriving areas. By shifting taxes off production and work and on to land values businesses in depressed areas would benefit economically and afford to expand. Those who currently enjoy unearned incomes from land would be encouraged to desist “investing” in land speculation and to invest their wealth into new enterprises.

Worthwhile investment in existing and new businesses would be encouraged in currently depressed areas and that would benefit local populations, encouraging workers to stay in those areas because of more job opportunities and encourage others to move there. As those once depressed areas become more productive, so land value will increase and the increased income for public services would be recycled to maintain and improve public services; benefit payments would reduce, the new wage-earners would become spenders in the local economy and there would be less pressure for people to move to areas with higher employment opportunities such as London and the South East.

**Council Tax** bands are based on outdated valuations and are capped for high value properties giving those owners a regular windfall increase in their asset values as our economy grows and adding to the causes of a lack of really affordable homes for workers all over the UK. It is such an unfair tax that there are numerous low value homes paying the same or more in Council Tax as high value properties priced at over £8million most of which is land value. Because all taxpayers generate land value, people who have to live with family or are tenants or owners living in the low value homes are subsidising those owning high priced properties – unfair, unjust and illogical.

Government grants and subsidies do not benefit the intended recipient because they capitalise into land prices but reward the owners of land instead of the business intended. The Common Agricultural Policy subsidies have merely increased land prices and rents for tenant farmers. Similarly, Enterprise Zones with reduced or zero Business Rate periods have seen increases in land prices for premises in those zones.

**Summary of why an annual Land Value Tax is a good for productivity**

* 1. An annual Land Value Tax offers the opportunity to tax the unearned income of landowners and to reduce or even replace taxes on the producers of wealth.
	2. LVT is a fundamental and sustainable solution to the provision of affordable homes; reducing unemployment; bringing idle development sites into their full permitted use and bringing empty business premises into full use and enabling the skills and talents of entrepreneurs, artisans, workers and inventors to flourish. The focus being on collecting land value to replace or reduce those taxes which damage business and that will provide a sustainable income for local and national public services and force custodians of land to use it efficiently, sparingly and in the interests of the whole community, not for exploitation and personal gain.
	3. Historically, many prominent economists including Adam Smith, David Ricardo and Nobel laureates like William Vickrey and Joseph Stiglitz have established that LVT is a preferable and more efficient form of taxation.
	4. Recent studies have concluded that Business Rates and/or Council Tax should be replaced with an annual LVT including the Institute for Fiscal Studies. In its Mirrlees Review[[1]](#footnote-1) “Tax by Design”, its conclusions state “we are proposing to abolish the current system of business rates and replace it with a system of land value taxation, thereby replacing one of the more distortionary taxes in the current system with a neutral and efficient tax. Business rates are not a good tax—they discriminate between different sorts of business and disincentivize development of business property.” They also advocate including farm land in LVT.
	5. The House of Commons Library research briefing SN6558[[2]](#footnote-2) dated 17 November 2014 explains (with some debatable points) what a Land Value Tax is and arguments put for and against its introduction.
	6. In a report commissioned by the Scottish Green Party, Andy Wightman[[3]](#footnote-3) proposes the abolition of Council Tax and Business Rates and the introduction of a LVT on all land in Scotland.
	7. In the Co-operative Party’s new document ‘A Co-operative Agenda for Britain’ 2015, it states”The Government should replace business rates and stamp duty with a land value tax, applicable to all land apart from property with an occupied primary residence on it.”

Further information about LVT is available from the Labour Land Campaign [www.labourland.org](http://www.labourland.org) (‘labour’ as in the labour movement, not just the Labour Party)

***A list of Frequently Asked Questions with answers is available from*** [***http://www.labourland.org/faqs/***](http://www.labourland.org/faqs/)

**Appendix 1**

**Land (location) Value**

* 1. A report written in October 2012[[4]](#footnote-4) for Crossrail by GVA, the UK’s largest independent commercial property consultant, predicted Crossrail would support the delivery of over 57,000 new homes and 3.25 million square metres of commercial space and noted that Crossrail was then already having an impact on property investment decisions particularly in central London. It also said that Crossrail could help create £5.5 billion in added value to residential and commercial real estate along its route between 2012 and 2021.
	2. A question that needs to be asked is “Why should business premises in one location, be valued at a fraction of that price if exactly the same building were located in other parts of the UK?” The answer, which unfortunately is unheeded by most politicians, economists or even influential think tanks, is in the question – the location.

Location value, ie land value, is created from society’s combined demand for land for homes; for food; for business and for leisure. Land value varies according to how accessible a site is to transport networks; public and private utilities and services; available, suitable workforce; customers and other businesses etc.

***Banks and financial institutions clustering in the City of London and Canary Wharf not only make London a global finance centre but add to the land value of these areas.***

* 1. Each property is made up of two values (i) the value of any buildings on a site and (ii) the value of the location of each site which includes natural qualities which are particularly important for farming. The owner of buildings are responsible for their construction, maintenance etc and are entitled to a fair rent for the use of their buildings. Location value is created by public and private investments together with natural attributes such as nearness to a river or park. This paper argues it is that land value that should be collected through an annual Land Value Tax as it has been created by taxpayers, investors and consumers and not from the privilege of owning land.
	2. The underlying value of land and future rises in land value arise from our combined demand for land and the public and private services that we want to locate near to. These services are paid for by all of us as taxpayers and as consumers. This is evident, for example, when there is a new transport service paid for by all taxpayers which not only benefits its users but increases the value of residential and commercial properties in its catchment area which, in the case of London’s new Crossrail for example, is considerable – taxpayers from all over the UK are subsidising these London land owners and overseas speculators and this is not economically sound or fair.
	3. The windfall gains from developing land have been the target by three previous Labour Governments in 1947, 1967 and 1976 to capture a share of windfall land values arising from planning decisions when Attlee, Wilson and Callaghan each introduced a form of Development Land Tax (DLT). Even Gordon Brown tried to make the same mistake with his ill-fated Planning Gain Supplement. DLT fails because landowners can avoid it by not developing their land and thus creating an artificial shortage and leading to higher land prices and urban sprawl onto less valuable land. [[5]](#footnote-5)
	4. Such windfall gains are quite unfair especially when one considers over 40% of the UK’s adult population are not property owners but are taxpayers and consumers and are also responsible for the underlying value and ongoing uplifts in land value.
	5. Because most existing taxes are inefficient and damaging to the economy there is a huge distortion and the production of goods and services are seriously hampered.
1. **Brownfield sites & Idle Development sites**
	1. Because land value is not collected for the public purse, it encourages land hoarding; land speculation and misuse of our land. Development sites can remain idle for decades, denying local communities access to such land for homes or business and creating eyesores in the process. In its report “Previously-developed land that may be available for development - Results from the 2009 National Land Use Database of Previously-Developed Land in England”[[6]](#footnote-6), the Homes and Communities Agency shows that in England in 2009, local planning authorities identified 61,920 ha of previously developed land of which they estimated that 31,160 ha (50%) was potentially suitable for housing and could potentially provide around 1,494,070 dwellings.
	2. Empty land, homes and commercial buildings left empty by irresponsible owners and speculators deny people access to these properties for homes and business.
	3. Residential and Commercial landlords are running a business. Because there are insufficient council homes being built and so many have been bought under the right-to-buy, more and more people are forced to rent from private landlords. Cheap mortgages under buy-to-let schemes has seen a growth in the private rented sector pushing up the price of homes which has further excluded many from being able to afford to rent or buy a home in an area where they prefer to live. This privatisation of social housing means landlords in the UK currently receive over £9.2 billion from housing benefit paid for their tenants. Because land value makes up a large part of a property’s rental value, this means taxpayers are giving a direct subsidy to landlords for doing nothing other than own a freeholding of this natural resource; land value is created by the economic actions of all individuals and businesses in the UK – not by any land owner.
2. **Farms, Grouse Moors, Golf Clubs etc**
	1. Farms pay no Business Rates, golf clubs can get Business Rate reductions and grouse moors get ‘farming subsidies’ under the Common Agricultural Policy (CAP). Yet all these land owners benefit from public services as much as any other business including roads; emergency services; educated and healthy staff and so on and therefore it is argued that all farm land, sporting estates, golf clubs etc should be included in a shift to annual LVT.
	2. Under the CAP, all farming subsidies in fact capitalise into land value and therefore eventually go to farm land owners rather than to farmers – tenant farmers are penalised and new entrants into farming are discouraged because of high land prices to rent or buy. In his book “Lie of the Land” Dr Duncan Pickard, a farmer in Scotland argues for LVT and maintains subsidies and the current tax regime seriously damage rural communities. Dr. Pickard argues that high employment taxes and tax reliefs on capital invested, encourages the sacking of employees in favour of capital-intensive methods, whereas LVT would make farming more efficient; sustainable; protect the environment and not only would create more jobs in agriculture but would also release farm land for new and much needed young entrants.
	3. Again the Mirrlees review argues for farm land to be included in a LVT on all commercial land.
	4. These businesses get subsidies from taxpayers through the Common Agricultural Policy and pay no Business Rates (other exemptions also apply) and it is contended that they too should pay LVT on the value of their land along with all other commercial land. **[[7]](#footnote-7)**
	5. An annual Land Value Tax would return land value that the whole community generates and act as an incentive for these land owners to use their land efficiently. It will also stop those buying estates for speculative purposes from doing so making land more affordable for genuine farmers and community activities.
3. **What an annual Land Value Tax is and is not**
	1. Either because of ignorance or deliberate intention to mislead, the description of LVT is regularly misdescribed and therefore politicians and their advisers have been misinformed on its merits.
	2. LVT is a levy on the annual rental value of every site valued at its optimum permitted use, including farm land, without including improvements such as buildings into the valuation.
	3. It is **NOT** any form of development tax that actually deters efficient use of land.
4. **Stages needed to Implement LVT**
	1. LVT is much simpler than most other taxes, nevertheless a number of stages have to be completed but with information already gathered for local and national government purposes and with the benefit of modern technology and the knowledge and experience gained by those in the world that already value land, this task will not be an onerous or complicated one.
	2. **Registration of all land** - The UK’s land registers need to be completed so that the owner, permitted use and size of every parcel of land is known. This will be a simple operation as a considerable amount of land is the UK is already registered; public advertisements could announce that the owners of unregistered land would be required to register within six months for tax purposes and then any unregistered land (ie land with no ownership claim) could be leased by the government to the either the current occupiers or to councils, businesses or individuals on 99 year leases with regular rent reviews.
	3. **Valuation of every parcel of land -** Each site needs to be valued according to its optimum permitted use. “Permitted use” is the use that the community, through the planning process, decides the land should be used for and “the optimum use” is the actual use that generates the most rent within the limitations of the permitted use. For several good reasons the valuation should be on a site’s annual rental value a procedure familiar to the UK where business rates already apply to rental values). Annual valuations are essential in order to keep information up to date, and provide transparency and fairness and to avoid situations where land values rise or fall in particular areas.

Objectors of LVT often suggest it is impossible to value land, however where sites are exchanged land valuations occur every day of the week and there is no identified situation that exists where professional valuers are unable to determine the rental value of a site. There are many jurisdictions that capture land value including Australia, Singapore and the USA that value land separate from buildings or other improvements at regular intervals using modern computerised and Global Positioning System (GPS) technologies.

* 1. **Apply levy -** The percentage levy on land value – the “LVT Rate” will need to be set at a level to collect sufficient funds to replace all income from existing property taxes.
	2. **Equalisation** **–** if LVT is to be collected by local authorities to replace business rates then a system of equalisation needs to be adopted between prosperous areas enjoying high land values and poorer low land value areas.
1. **How much income will a shift in taxation to LVT collect?**
	1. The amount collected will depend on decisions made by the government of the day such as ensuring LVT is revenue neutral; which taxes are abolished and which are reduced and the positive economic effects of LVT on the economy. It is currently difficult to give any accurate figure on how much could be collected from a particular LVT percentage because of a lack of relevant information on land values.
	2. By replacing Business Rates with an annual LVT, the tax base immediately grows – farmland, sporting estates, idle development sites and sites with empty commercial buildings will all be contributing.
	3. Because an annual LVT discourages speculation in land, land prices will fall to their true economic value meaning rents and selling prices of homes cannot be manipulated or subjected to booms and busts.
2. **Options for reforming Business Rates**
	1. **First Option: abolish Council Tax and Business Rates and reduce negative taxes on business and apply an annual land value tax on all land**. There are strong arguments that to substantially improve the UK’s economy and reduce unemployment, all taxes on producers (Business Rates, income tax, NICs, vat etc) should be replaced or reduced by an annual Land Value Tax on all land, however this paper only proposes a reform of replacing Business Rates with an annual LVT which would provide limited but significant and immediate benefits to businesses, workers and the whole UK economy.
	2. **Second Option: To abolish Business Rates plus Council Tax on tenanted homes and apply an annual Land Value Tax on all land other than residential that is the main residence of its owner.** Business Rates on all land that business is carried out on would be fair to all businesses and make owners of all land use it more efficiently and sparingly.
	3. **Third Option: Replace Business Rates with an annual Land Value Tax**. Because all land would be used more efficiently and a fair proportion of all land value would be collected through an annual Land Value Tax, businesses would benefit from this transparent, unavoidable, fair and sustainable source of income to pay for the provision and development of local services.
	4. Such a shift in taxes off earned incomes and on to the unearned incomes of land owners would be a trailblazer for tax reform in the whole of the UK and farther afield.
1. http://www.ifs.org.uk/uploads/mirrleesreview/design/ch16.pdf [↑](#footnote-ref-1)
2. http://researchbriefings.files.parliament.uk/documents/SN06558/SN06558.pdf [↑](#footnote-ref-2)
3. <http://www.andywightman>. com/docs/LVTREPORT.pdfSN6558 [↑](#footnote-ref-3)
4. http://www.crossrail.co.uk/news/articles/crossrail-predicted-to-increase-property-values-by-55-billion [↑](#footnote-ref-4)
5. Labour’ Flawed Land Acts 1947-1976. <http://www.labourland.org/downloads/papers/Vic_Blundell_DLT.pdf> [↑](#footnote-ref-5)
6. http://www.homesandcommunities.co.uk/sites/default/files/our-work/nlud-report-2009.pdf [↑](#footnote-ref-6)
7. **Farming subsidies: this is the most blatant transfer of cash to the rich** [George Monbiot](http://www.theguardian.com/profile/georgemonbiot) http://www.theguardian.com/commentisfree/2013/jul/01/farm-subsidies-blatant-transfer-of-cash-to-rich [↑](#footnote-ref-7)