Labour Land Campaign officers are the British experts on LVT and we should be prepared to offer detailed solutions to any government which seeks to tax land here. It would be useful if we could agree on the best way to introduce LVT but if this is not possible we should aim to have a small set of offerings available. The options for implementation which the Campaign agreed for our manifesto 12 years ago were only a first step. This is my personal proposal which is largely based on the work which Jerry Jones and I did to produce a draft strategy paper in 2014/15.[1]

PROPOSAL FOR THE IMPLEMENTATION OF LAND VALUE TAX

All property taxes to be abolished - Council Tax (CT), Business Rates (BR), Stamp Duty Land Tax (SDLT), Section 106 Agreements (Section 106), Community Infrastructure Levy (CIL), Annual Tax on Enveloped Properties (ATED)[2] - and replaced with annual Land Value Tax (LVT).

All these taxes prevent the land market from allocating land to best use. Section 106 and CIL, in particular, reduce the ability of local authorities to exert their land use powers effectively. There is a lot of unused/under-used land suitable for new towns and garden cities just waiting for local authorities to exert control. Permitted use is the most important determinant of land value.

For land which has previously been subject to BR, it is simple to replace with LVT on a revenue neutral basis. As BR is a national tax and businesses don't vote, this would not be politically challenging. The rental sector here is large and some consideration should be given to the effects of changing the liability from occupier to owner. With regard to income tax/corporation tax one might imagine that more tax would be collected from smaller renters (no longer paying, so higher taxable income) than lost from bigger landlords who are more adept at dodging.

It should be recognised that, except in certain instances such as pubcos, the commercial property sector provides a useful service to businesses in maintaining the fabric of the building and is generally non rent-seeking. BR is a very unpopular tax and LVT should be welcomed by businesses. Much of the rent is already appropriated through taxation – the standard rate of BR is about 50%. Calculations carried out by Jerry a few years ago suggested that the LVT rate to produce the same revenue would be about 60%, which seems a good starting point.

Because agricultural land is of low value – and will be reduced further if the CAP subsidy is not replaced on the same acreage basis after Brexit - some think that it should continue to remain exempt from property taxation. This would not be sensible. Post Brexit will be a good time to introduce better policies to support a vital industry, but perpetuating the rent-seeking of large agri-businesses is no way to do so. Young people without the fortunes of James Dyson's family should not be barred from entry into the farming business. This sector also includes forestry and large country estates, which have proved of use to rich tax dodgers – who wants to help them?

We want all land to be valued for taxation purposes and if there is no revenue there will be no incentive to assess most of British land. A starting LVT rate of 60%, like for other businesses, is suggested. Tenant farmers pay their landlords 100% now, so perhaps 60% is too low.

The long term objective is to have a high single rate of LVT for all land (80%?), recognising that some land, because of its statutory permitted use, is of no current beneficial value to the owner and therefore the land value is nil. Given the extreme variation in the value of residential land, caused by previous distortionary policies (sale of council houses, banking deregulation, abolition of domestic

[1] http://www.labourland.org/wp-content/uploads/2015/09/JonesWilcoxLVTpaperFinal-V2.pdf.

[2] There are some features of ATED which make it worth considering for retention and adaptation: owners are responsible for declaring their liability and assessing the value.

rating system, etc.) that objective could take many years to achieve. And so we come to the replacement of CT by LVT – the political hot potato.

CT is levied on wildly out-of-date values, with the rates set by local authorities using a statutory formula giving a 1:3 ratio between the tax paid on the bottom A band and top H band. There is also a 25% reduction for single occupancy – thus retaining some of the iniquities of the Poll Tax. There are also distortionary concessions like the exemption for student accommodation. It is scandalous that the owner of a Westminster mansion is liable for almost the same CT as the tenant of a bedsit in Weymouth. CT is the most regressive tax (except perhaps for the TV licence) and one of the main causes of the 'housing crisis'.

For this reason replacing CT with LVT should be the first objective of our Campaign. To get from here to there is not going to be easy. We saw what a mere mention of 'considering' LVT in their 2017 manifesto did for the Labour Party. Along with the dominant tory press, headlines blazing from every high street and supermarket - Your Council Tax will treble and House Prices will plunge - leaflets were pushed through millions of doors. It may have lost Labour the election.

House prices will indeed plunge – and a good thing too – but this will not be popular with many owners whose main asset is their home. On the other hand, as argued in the Jones/Wilcox paper, many factors influence house prices and LVT could just be part of the noise. There remains a question of how to protect the finance sector which relies so much on churning second-hand homes. My own view is that the market will adjust and prices will fall very quickly as soon as LVT is understood to be 'round the corner'.

The affordability issue cannot be ignored, however, and the commonly cited remedy of 'the rollover' is not adequate. The old domestic rating system had lower rates than the non-domestic rating system, recognising the difference in affordability between income and non-income generating property. LVT will be taxing homeowners on imputed rent. Schedule A Income Tax, which purported to tax imputed rent, is still a mystery as to how it worked and what were its effects.

There is also a difference in affordability between those with mortgages and those without. There have been suggestions of passing a proportion of the LVT bill to the lender on the basis that the lender in effect is part owner. Recognising this fact, in the US the lender is sent the property tax bill who then forwards it to the borrower. This idea is worth consideration by the finance experts, who should be expected to provide some benefit to the community from which it takes so much.

Setting a single rate for LVT without reducing the revenue from BR would result in an increase in property tax of c£22,000 for the owner of a modest 3 bed house in Kilburn. If homeowners were allowed a concessionary rate to help the Kilburn resident, the Weymouth bedsit owner would be barely paying any property tax at all. It would also significantly reduce the amount collected currently from CT. It could be said that 'the market' would quickly adjust and land values would plunge in some areas and soar in others, so the second year of operation would see more reasonable bills, or, if there was a substantial lead-in time, the adjustment would already have taken place before the first bills landed. In any case there would be a great deal of consternation and disruption. Would this be a good thing?

The solution suggested in the Jones/Wilcox paper was to introduce LVT in the residential sector by replacing CT with LVT on a revenue neutral basis for each local authority. Average LVT bills would then be the same as average CT bills initially. This would only be a concession for principal homes. For additional and, importantly, rented homes, the rate would be set at the business rate. This would also cover homes owned by companies: that is those subject to ATED, many of them based overseas. The rates could then be gradually converged upwards and eventually catch up with the rate levied on income generating land.

The higher rate could also be applied to new builds on the basis that the undeveloped site was already subject to LVT. This needs careful consideration because of the disruption LVT would cause to the housebuilding industry generally.

Taxing landlords at the business rate (for they are running businesses after all) will have a major effect and could at-a-stroke alleviate the housing crisis and reduce the £10 billion a year Housing Benefit bill. It will put a huge number of properties onto the market in the most expensive areas where the rented sector has grown to more than 50%. House prices will indeed plunge. Local authorities must be ready to buy up the best of this stock and rent them out as council houses, retaining sitting tenants. It would also benefit first time buyers. Consideration may have to be given to helping the many landlords facing bankruptcy.

But consideration must also be given to tenants. It is no use our telling them that landlords are already charging the maximum they can. Landlords will seek to recoup the LVT they are now paying by increasing rents. Tenants could be on the streets before the market adjusts to reality. That reality includes the fact that tenants, relieved of CT, now have more disposable income to spend on the rent. It will be essential to put in place legislation to protect tenants from unaffordable rent rises, perhaps by only permitting rises equal to the previous CT. This may also have to include business tenants.

To repeat, we want all land to be valued for taxation purposes. If LVT is not applied to homeowners there will be no incentive to assess the most valuable British land.

As the suggested initial rates for residential and all other land are different under this proposal, it may be of benefit to present rates on capital values for owner-occupied residential and rental values for the rest. 3% is less scary than 60%. BR use rental values, as did the old Domestic Rating System, but they were never commonly understood. The Valuation Office can work with either.

Anthony and I have recently been looking at potential synergy between MMT (Modern Monetary Theory) and LVT. This has particular relevance to the aim of reducing/abolishing deadweight taxes, such as Income Tax and National Insurance Contributions (NICs) and VAT. Since MMT shows that a government with its own currency can spend first and tax later (in order to curb inflation) it is possible to think of introducing LVT without the constraint of 'balancing the budget'. It would be wonderful if we could show the Shadow Treasury team that Income Tax could be abolished for the average worker, along with employers' and employees' NICs, in addition to current property taxes, on first implementation of LVT. Once out of the EU we could also abolish VAT, replacing with a consumption of scarce resources tax.

Carol Wilcox
August 2018