Brief Arguments as to why an annual Land Value Tax is more efficient; fairer and economically sound than current Business Taxes

1. Summary

1.1. Land is a natural resource and only has economic value when there is a demand for its use to provide businesses, homes, farming, leisure etc. Ownership does not create land value, society's combined demand for its use does. Land wealth however, lies in the hands of a few owners.

1.2. The UK's current tax system is not fit for purpose for four reasons:

a) The current methods of taxation act as a barrier to many new businesses launching and existing businesses expanding thus losing society not only the benefits of new products and services but also the jobs and the skills and talents of many inventors, workers and people from the arts.

b) Current taxes are complex and open to avoidance and evasion thus wasting the skills of the people employed as lawyers, accountants and tax avoiders etc. who could be better employed in designing, producing or marketing better goods and services.

c) Many firms change their behaviour to reduce their tax liability rather than to maximise their profits or to better serve their customers.

d) The taxes on incomes and savings can act as a deterrent for both employment and investment.

1.3. For environmental and social reasons, land should be used efficiently and sparingly and in a way that encourages localisation of the production and distribution of goods and services; reduces commuting and road haulage journeys; reduces air pollution and allows the protection of natural places of beauty, wildlife and encourages re-wilding.

1.4. Land wealth - which only arises because of private and public investments - should be returned for the public good and used to maintain and develop public services and other good investments such as in renewable energy, scientific research and development and other activities that benefit today's and future generations.

1.5. By replacing or reducing distortive and regressive business taxes with an annual Land Value Tax, new business investment will be stimulated in regions with high unemployment (and lower land values), providing new job opportunities and encouraging these areas to flourish. The current distorting North/South and Rich/Poor divides will be no more as access to land for businesses, jobs and homes will be more accessible to all.

1.6. By increasing the expense of holding land idle, land hoarding and land speculation will naturally be discouraged leading to land prices which reflect the true value of each site rather than society suffering the inflated prices that lead to the inefficient use of land.

1.7. The land market (together with banking policies) is a major factor leading to the eighteen year cycle of business booms and busts.

1.8. A sustainable source of income will be available to local and national government to maintain and improve public infrastructure and services.

1.9. If also applied to all other natural resources, the collection of natural resource wealth will open opportunities for many and will be an aid to protecting their exploitation and misuse.

2. Background

2.1. Following the Covid-19 pandemic, the economy has experienced unprecedented turmoil for many businesses – big and small – facing closure or contraction. This has worsened the pre-pandemic fragility of a growing number of businesses in the UK, particularly in manufacturing, retail and hospitality sectors, fighting for their survival. The resulting increase in the number of unemployed people also needs to be addressed urgently.

2.2. Current business taxes are complex, inefficient and distort the economy and can act as a barrier to new initiatives. They are avoided and evaded by many which means a greater tax burden for those who do pay their fair share of taxes.

2.3. Because of how the economy works, any subsidy to businesses, for example a Business Rate freeze/reduction or a lowering of VAT, will ultimately capitalise into land value thereby pushing up the price of business premises to rent or buy. Crucially, land values and taxes are inversely related.

2.4. Over 50% of the net UK's wealth is in land. Half of England is owned by less than 1% of the population. 30% of land has been owned by a few families for generations. 25,000 land owners (families, individuals and corporations) own half of England's land.[1]

2.5. Business Rates are assessed on the building as well as the location value, which means responsible businesses and landowners that have environmentally sound, attractive and well maintained buildings pay higher rates than occupiers of similar but neglected buildings. They are avoided by owners of empty buildings and idle development sites. Business Rate valuations include heavy plant and other capital equipment and fixtures which particularly penalises industry and the manufacturing sector.

2.6. VAT is a regressive tax and unfair to small businesses that reach the threshold and have to decide to stop cease providing their goods or services for the rest of the business year or pay VAT on that year's entire income. This effect is especially evident with seasonal businesses relying on tourism that lay off workers in the late autumn and close their shops, hotels etc for the winter season. VAT is also illegally evaded by those wanting to avoid paying the tax by making and receiving cash payments for their services or stock.

2.7. Good developers are hampered in providing premises that are affordable to all because of high land prices due to land hoarding and land speculation. Land booms and busts affect developers who bought at or close to peak prices who then either make a loss or wait until a rise in land values before they develop their site in order to make their profit, depriving society of the homes and business premises waiting to be built

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2.9. High land prices mean unaffordable homes to rent or buy for a growing number of people thereby reducing the size of the potential workforce for businesses in a growing number of areas.

2.10. Current business taxes take no account of the considerable economic contribution that businesses make to land value and therefore to land wealth.

3. Why an annual Land Value Tax is a good tax

3.1. This paper supports the contention that the current business taxes need to be replaced totally or at least in part with a transparent; efficient and fair tax that does not discriminate for or against any particular group of landowners, residents or businesses. It offers a solution to replace Business Taxes with an annual Land Value Tax (LVT) that is fair; unavoidable/unevadable; transparent; easy and cheap to collect and one that redistributes fairly a part of the unearned economic rent of land that is created by the whole of society including businesses and not by land ownership.

3.2. An annual Land Value Tax offers the opportunity to tax the unearned income of owners of this natural resource and to reduce or replace taxes on production and trade.

[1] https://www.theguardian.com/money/2019/apr/17/who-owns-england-thousand-secret-landowners-author#:~:text=Shrubsole%20writes%20that%20the%20bulk,amounts%20to%201.4%25%20of%20England.

3.3. 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.

3.4. Historically, many prominent economists including Adam Smith, David Ricardo, John Stuart Mill, Henry George and Nobel laureates like William Vickrey and Joseph Stiglitz have established that LVT is a preferable and more efficient form of taxation.

3.5. 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 2010, the Mirrlees Review[2] "Tax by Design" where 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.

3.6. The House of Commons Library research briefing SN6558[3] dated 17 November 2014 explains (with some debatable points) what LVT is and arguments put for and against its introduction.

3.7. In a report commissioned by the Scottish Green Party, Andy Wightman[4] proposes the abolition of Council Tax and Business Rates and the introduction of a LVT on all land in Scotland.

3.8. In the Co-operative Party's document 'A Co-operative Agenda for Britain' 2015, it states"The Government should replace business rates and stamp duty with LVT, applicable to all land apart from property with an occupied primary residence on it."

3.9. The Green Party (England and Wales) supports LVT to replace Council Tax and Business Rates.

3.10. The Labour Party's 2019 document "Land for the Many" included LVT replacing Business Rates in its significant proposals to reform land use and land wealth distribution.

3.11. Further information about LVT is available from the Coalition for Economic Justice (www. http://www.c4ej.com), Labour Land Campaign (www.labourland.org) Liberal Democrats ALTER (https://libdemsalter.org.uk/en), The Henry George Foundation (https://www.henrygeorgefoundation.org/)

A list of Frequently Asked Questions with answers is available from http://www.labourland.org/faqs/

4. Land (location) Value

4.1. A report written in October 2012[5] 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] http://www.ifs.org.uk/uploads/mirrleesreview/design/ch16.pdf
[3] http://researchbriefings.files.parliament.uk/documents/SN06558/SN06558.pdf
[4]4 http://www.andywightman. com/docs/LVTREPORT.pdfSN6558

[5] http://www.crossrail.co.uk/news/articles/crossrail-predicted-to-increase-property-values-by-55-billion

4.2. 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, quite simply is, the location.

4.3. 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; 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.

4.4. 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 maintenance etc and are entitled to receive 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 etc. It is argued that land value should be collected at least in part through an annual Land Value Tax as it has been created by taxpayers, investors and consumers and not from the privilege of owing land.

4.5. 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, investors and 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 (many of whom are overseas speculators) and this is not economically sound or fair.

4.6. Many commercial tenants cannot afford to rent or buy premises yet they equally contribute to sustaining and creating land value as taxpayers and as investors. As businesses and the public sector invest in an area, commercial tenants see the land their building is sited on, rise in value but receive no benefit from their tax investment except an increases in their rents.

4.7. These windfall gains 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 even higher land prices and urban sprawl onto less valuable land. [6]

4.8. 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 also contribute to the underlying land value and to the ongoing uplifts in land value.

4.9. 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.

5. Reducing carbon emissions, other pollution and protecting green spaces and the countryside

5.1. 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.

[6] Labour' Flawed Land Acts 1947-1976. http://www.labourland.org/downloads/papers/Vic_Blundell_DLT.pdf

5.2. According to the CPRE's State of Brownfield 2019 report, 338 published brownfield registers from local authorities identify more than 18,200 brownfield sites covering more than 26,000 hectares.[7]

5.3. Empty land, homes and commercial buildings left empty by irresponsible owners and speculators deny people access to these properties for homes and business.

5.4. If we used our land in towns and cities more efficiently, there would be less pressure to build on green spaces and on greenbelt land and in the countryside which mean longer car commutes, more pollution and road accidents and pressure on precious public services in those localities.

5.5. More local businesses can increase local distribution of goods also reducing road use for long haul journeys and therefore pollution and other environmental damage.

5.6. If LVT was also applied to farmland, it is argued that farmland would be used more efficiently and releasing land for new farm entrants or used for rewilding etc. there again helping protect the environment.

6. What an annual Land Value Tax is and is not

6.1. The description of LVT is regularly misdescribed and therefore politicians and their advisers have been misinformed on its merits.

6.2. LVT is a levy on the annual rental value of every site valued at its optimum permitted use, including farm land, without including any improvements such as buildings.

6.3. It is **NOT** any form of development tax that actually deters efficient use of land.

7. Stages needed to Implement an annual Land Value Tax

7.1. **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 in 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 either the current occupiers or to councils, businesses or individuals on 99 year leases with regular rent reviews.

7.2. **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 annual rental values). Annual revaluations are preferable in order to keep information up to date, and provide transparency and fairness and to avoid situations where the tax liability becomes unfair in those areas where the land values rise or fall.

7.3. Objectors of LVT have sometimes suggested it is impossible to value land, however land valuations occur every day of the week as sites are exchanged 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.

[7] https://www.labcwarranty.co.uk/blog/how-many-homes-could-we-build-on-brownfield-land-in-england-in-2019/

7.4. **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 commercial property and business taxes.

7.5. **Equalisation** – Were the tax to be collected locally, for fairness and its success, it is preferable that a system of equalisation needs to be adopted between prosperous areas enjoying high land values and poorer low land value areas.

8. How much income will a shift in taxation to LVT collect?

8.1. 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. However, once LVT is first introduced with a relatively modest rate it will be much easier to use the information gathered in order to predict the effect of future increases.

8.2. **However, we know that because land value and taxes are inversely related and because subsidies and grant capitalise into land prices, businesses can only gain from a shift to LVT.**

8.3. By replacing Business Rates with an annual LVT, the tax base immediately grows –idle development sites and sites with empty commercial buildings, farmland and sporting estates will all be contributing.

8.4. Because an annual LVT discourages speculation in land, land prices will fall closer to their true economic value, meaning rents and selling prices of homes will be less liable to manipulation and booms and busts should be ironed out.

9. Conclusion

9.1. An annual Land Value Tax applied to all commercial land to replace/reduce current business taxes will stimulate the economy locally, regionally and nationally and will foster the efficient and sparing use of land.

9.2. New and expanding businesses will be able to afford premises to start or expand their ventures using local talents and skills currently lost to society. This is particularly important for areas currently underinvested in where land is cheap but the marginal tax costs for businesses do not make business viable.

9.3. An annual Land Value Tax replacing and/or reducing all business taxes in one step may be considered to be too ambitious by some decision makers. In which case, an initial step would be to replace Business Rates with LVT but on all commercial land including development sites with planning permission and without exception and for all homes with tenants.

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Some websites for more information on LVT:
http://www.c4ej.com
www.labourland.org
https://libdemsalter.org.uk/en

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