Response to HM Treasure Business Rates Review: Call for evidence

From Labour Land Campaign

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Our submission is based on research we have carried out on how the current Business rates system is inefficient, unfair and distorts the economy along with other inefficient and distortive taxes levied in the UK. The Labour Land Campaign (LLC) argues that a fundamental shift in taxes off earned incomes and on to unearned incomes from land and other natural resources will deliver an unavoidable/unevadable, fair, just and non-distortive tax system that will provide a sustainable source of income for local and national public services and protect our natural resources from being wasted. Land and other natural resource wealth arises from our combined demand for their uses and we argue that wealth should be returned to the public purse to replace bad taxes and to help ensure they are used sparingly and efficiently – offering a virtual circle of land and other natural resource wealth to benefit all socially, economically and environmentally.

3.1 Reliefs

1 How well do current reliefs and exemptions deliver their intended outcomes and satisfy the principles of good tax design? What changes would you suggest to the system?

Because of the serious flaws in the design of business rates, current reliefs and exemptions can discriminate against businesses and publicly owned institutions that need financial support to set up, continue or expand. For example, the system of 80% rate relief to charities means the well-funded Eton School and other private schools and academies pay only 20% of their business rates bill whereas state schools pay 100%. Similarly, the NHS pays full business rates whereas a hospital with

Charity status pays only 20%. It is argued this is not fair, is discriminatory and distorts the advantages some private sector organisations have over state funded institutions. A shop owner who declares their intention to rent their shop to a registered charity can also apply for 80% rate relief and a survey carried out by the Local Government Authority titled "Business rates avoidance survey of local authorities"[1], (published in July 2019), found "Vacant properties being leased to a charity with proposals for the next use to be wholly or mainly used for charitable purposes was the second most commonly identified method and the average amount lost for this was £153,000." (The total income lost to local authorities by avoidance is reckoned to be £250million).

Grants and subsidies will always capitalise into land value and this is also the case with Business Rate reliefs and exemptions. It is an economic fact that land value and taxes are inversely related and the owner of a property will charge as high a rent as possible which will take into account other costs of occupation by the tenant including business rates bill. In its conclusions, a report by Regeneris [2] said "The evidence suggests that over a period of two to three years approximately 75% of the value of business rate change is capitalised into rents. This estimate is based on previous studies and the application of established modelling techniques to our new data. **We can therefore conclude that the economic incidence of any changes in this tax is borne initially by occupiers, but soon transfers to owners and landlords."**

A well designed tax system will be unavoidable/evadable; will not distort the economy; will encourage the building and refurbishment of buildings so that they are environmentally sound, self-sufficient in energy, well designed (thus improving their locality); encourage efficient use of land and other natural resources and will encourage the localisation of the production and distribution of worthwhile goods and services.

Because business rates include building valuation, they can be avoided totally by making a building uninhabitable or by not building on a site granted planning permission, meaning inefficient use of land in our towns and cities and results in the building on green spaces, on green belts and in the countryside with all the negative environmental results such decisions cause. This also distorts decision-making including siting supermarkets as far away as possible from a main road in order to secure as low a valuation as possible; not carrying out improvements of buildings including making them environmentally-friendly so as to not increase their value and hence their Business Rate bill; building on cheaper green and rural sites that misuse our land, cause long-distance commuting with increased energy use, road accidents and air pollution. It is unfair that plant and machinery is included in Business Rate assessments and is actually a tax on productive investment, there is no logic to including such capital in assessments and needs to be excluded from any form of property tax. Also, with local authorities keeping a bigger proportion of the business rates collected in their area, there is temptation to allow denser, less desirable and environmentally damaging developments than may be in the local community's interest.

A much more efficient, transparent, unavoidable/unevadable and less distortive business tax would be an annual levy on the land (location) value collected from all non-domestic sites – including all privately rented homes and holiday lets which are businesses - whereby each site would be valued

[1] https://www.local.gov.uk/sites/default/files/documents/Business%20Rates%20Avoidance%20Survey%20Report%202019.pdf

[2] https://www.bpf.org.uk/sites/default/files/resources/Who%20pays%20business%20rates%20research%20%28BPF-BCO-BCSC%29%20Final.pdf

according to its optimum permitted use and also would be revalued annually to avoid situations of sudden increases experienced by businesses with business rate revaluations.

It is important that the LVT business rate be applied to all land in the UK except for those sites on which owner-occupied homes are currently levied and paying Council Tax. The effect of this would be to increase the tax base for business rates and so reduce the average amount currently paid by business ratepayers. We would include land on which any home used for generating an income is sited including private rentals, holiday lets and student accommodation (which is currently exempt from paying Council Tax!).

As land values increase as a result of community activities and public and private services and investments around the site which creates an unearned benefit to landowners, it is fair and just that all landowners should contribute towards the cost of public services.

By putting an annual levy only on the economic rent of land and not on buildings or any improvements to the land, we will see land used more efficiently and sparingly with idle development sites brought into full use and unused or underused buildings being brought into their full permitted use. Because land would be valued at its optimum permitted use value, there would be no need for exemptions or reliefs because the planning permission will reflect the value of the land. Other wider benefits would be the elimination of land speculation and land hoarding which distort land and therefore building rents and discriminate against new set-ups and expansion of existing businesses. It can be argued that this annual levy on all land should include farms, golf courses, hunting and fishing estates etc as they are all businesses that enjoy underlying and uplift in their values that result from worthwhile public and private investments. Such a levy goes by various names including annual Land Value Tax (LVT), Location Benefit Levy (LBL); Site Value Rating (SVR) and Annual Ground Rent (AGR); this submission from the Labour Land Campaign uses the term annual Land Value Tax (LVT).

2 How can reliefs be targeted more effectively? How can reliefs and their administration be simplified?

LVT operates in such a fair way that it requires no additional reliefs.

If a site in a town has permitted use for an urban farm then the valuation will reflect that the income from such a venture will be much lower than if the site had residential planning consent. No additional relief would be necessary but LVT would encourage the urban farm operator to be efficient and maximise revenue. The location of a site with a warehouse used by an online company such as Amazon and with convenient access to motorway access would mean the valuation of that site would be considerably more than the site of a similar warehouse on a local B-road used by a farmer for distributing food to local outlets.

3 What evidence is there on the capitalisation of business rates and business rates reliefs into rents over time? What does any evidence mean for the design of rates reliefs and business rates more broadly?

This is answered in our response to questions 1 and 2.

4 What role should local authorities have in determining business rates reliefs and exemptions? Should reliefs and exemptions be set by central government or set locally?

Please see our response to questions 1 and 2. We maintain that any form of grant should reach the intended goal and not be capitalised into land value as happens under business rates. Because LVT does not distort the land economy, any grant for a specific purpose would remain with the intended recipient. With LVT, any form of grant or subsidy could then be initiated by local or central government successfully.

5 Are you aware of ratepayers misusing tax reliefs or other means to avoid paying their full business rates liability? What could be done to tackle this?

Please see our response to questions 1 and 2. Any tax that is avoidable or evadable is a bad tax and not fair on those who do pay their full taxes. Business rates is not a good tax because it is avoided by those who do not use their property to its maximum permitted use (idle development sites, unused and underused buildings, buildings made derelict so as to avoid this tax etc) even though the owners benefit from underlying services (fire, police etc.) and the uplift in their land value from public and private investments and services around them and a future tenant or purchaser will be able to use roads and public transport to access their properties. LVT is not avoidable or evadable and encourages the efficient and sparing use of land thus helping to protect our environment – it is a Green and efficient tax.

3.2 The business rates multiplier

6 What are your views on how the business rates multiplier is set annually and at revaluations?

We maintain the system of business rates is fundamentally flawed and needs to be replaced by a more efficient annual Land Value Tax.

7 How could the multiplier be set in future to ensure the sustainability of public finances and support growth and productivity? What would the impact of any proposed changes be on the level of the multiplier and revenue from business rates over time?

An annual Land Value Tax would automatically reflect any good increase in economic growth and productivity because land values would rise and therefore so would an increase in revenue from it to be used to maintain and develop public services. The efficient use of non-domestic land and greater access to affordable premises, made cheaper because of the elimination of land speculation and land hoarding, would also encourage economic growth in areas that are currently under invested in. (The abolition of other bad and distortive business taxes such as VAT to be replaced by LVT would add to this positive economic change in how our economy works). In addition LVT would compensate naturally the owner of a site that lost value for any reason but for example the loss of amenity because of a new road or its proximity to HS2.

8 How should the multiplier and any supplements relate to business rates reliefs? Should these be discrete, or should supplements fund specific reliefs?

We maintain the system of business rates is fundamentally flawed and needs to be replaced by a more efficient annual Land Value Tax.

Government or local authority funding of local business initiatives should be in harmony with environmental improvements and used for specific purposes and not for any tax relief which will capitalise into land value.

9 What are your views on introducing additional multipliers that vary by geography, property value, or property type?

LVT does this automatically as it only values land at its optimum permitted use value. Land value is created from our combined demand for the use of a site and is a reflection of the local economy. Therefore, in areas where land values are low, income from LVT would automatically be low and where land values are high so income from LVT would be high. The building structure on a site is of no matter in the valuation needed for LVT.

4.1 Valuations and transitional relief

10 What are your views on the frequency of revaluations and what changes should be made to support your preferred frequency?

With LVT revaluations need to be carried out frequently (preferably annually) otherwise variations in land value will not be reflected in the levy. For example, a worthwhile new public transport system such as Crossrail will increase land values from the day it is announced but a nuclear power station will probably reduce land values around it.

It should be noted that the Australian state of Victoria values its land annually. The Valuation Office Agency is perfectly capable of doing the same.

11 What are your views on a banded or zone-based valuations system and the trade off with valuation specificity?

As it is simpler to value land – rather than buildings a zone-based valuation system would not be required. LVT will automatically reflect the economic differences between areas – locally, regionally and nationally.

12 What are your views on changing the valuation process or the information provided to the VOA, to enable more frequent revaluations?

In order to even out the shock of changes in real values over time annual revaluation is preferable to the current five year revaluation period.

Where LVT is applied, valuations are carried out in a variety of ways, today using computers, GPS and mass appraisal techniques valuing land is considerably easier than valuing buildings and so fewer resources should be necessary for an annual revaluation of land rather than a five year revaluation of buildings.

13 What are your views on the relative importance of the period between the AVD and compilation of the list vs. more frequent revaluations?

The AVD is just one of the complexities with business rates. Because land can be valued much quicker and more easily than can be buildings, LVT won't need such time lapses.

14 What are your views on changing the definition of rents used in the valuation process? How could this be done in a way that most fairly reflects the value of the property?

We advocate LVT as a simple and transparent way of collecting the economic rent of land and ignoring buildings and improvements in this process.

15 If you have had concerns over the specific method of valuation applied to your property, what were these concerns and how could the process be improved?

N/A other than to comment that in some districts in the USA which have a "two-tier property tax" with one levy on building value and one on land (location) value, appeals against building valuations are considerably higher than those on land valuations because it is much more difficult and time-consuming to value a building than land. Incidentally one valuer states that his department wins more appeals on its land valuations than on its building valuations because it is easier and more accurate to value land whereas a building's value is more subjective.

16 What are your views on the design of the transitional relief scheme, and how transitional arrangements should be funded, given the requirement for revenue neutrality?

With LVT and annual revaluations, there would be no need for such a scheme.

4.2 Plant and machinery and investment

17 What evidence is there that the business rates treatment of P&M and changes to property affects investment decisions?

MakeUK (makeuk.org), an organisation that works for the manufacturing sector, argues "**For industry, this reassessment will include plant and machinery classed as 'integral' to the building – a tax on productive investment"[3]........ That this aspect of the system disadvantages manufacturers compared to other industries is no surprise".** Any measure that deters good investment or punishes those who do invest is bad for the economy, and innovation.

The retail sector as well, already in trouble, is badly affected by including the value of buildings in business rate valuation.

18 Are the current P&M principles and regulations still relevant? How could these be updated if necessary, and what would the effect of any proposed changes be?

[3] https://www.makeuk.org/insights/blogs/what-types-of-plant-and-machinery-are-included-in-business-rates-calculations

P&M regulations should be abolished. We cannot see any justification for this regulation in the first place as it clearly discourages investment. We need a simple, fair, progressive and transparent property tax and LVT fits that bill.

19 What evidence is available on the potential benefits of exempting certain types of P&M on a permanent or time-limited basis?

All P&M should be abolished. We cannot see any justification for this regulation in the first place as it clearly as it clearly discourages investment. We need a simple, fair, progressive and transparent property tax and LVT fits that bill.

20 What practical challenges would the implementation of wider exemptions for P&M pose, and how might those be addressed?

All P&M should be abolished. Businesses might shift their production from best practice or greatest efficiency simply to qualify for the new exemptions. We cannot see any justification for this regulation in the first place as it clearly discriminates against our manufacturing sector. We need a simple, fair, progressive and transparent property tax and LVT fits that bill.

21 How can business investment and growth best be supported through the business rates system, and how effective would business rates changes be compared to other available measures?

All business taxes need to be reviewed and replaced completely or in part with taxation that is fair, transparent, unavoidable and unevadable and one which encourages worthwhile investment, localisation in the production and distribution of goods and services and one that encourages environment sustainability and efficient and sparing use of all natural resources including land.

By replacing business rates with LVT, land prices will move to their true economic rental value rather than their inflated level because land and buildings kept out of their proper permitted use causes an artificial shortage and that pushes the price up making sites inaccessible to those wanting to set up or expand their business or ideas. LVT will rid our economy of land speculation and land hoarding making land accessible to new and expanding businesses in all areas of the UK.

By replacing other bad and distortive business taxes (such as VAT, national insurance and stamp duty) with LVT, this would also offer greater opportunities for worthwhile growth. For example, a number of small businesses in tourist areas will close when they reach the VAT threshold putting staff out of work and having to claim benefits and discouraging visitors during less busy times.

22 How could the business rates system support the decarbonisation of buildings? What would the likely impact of any changes be compared to other measures, including other taxes, spending or regulatory changes?

Business rates act as a deterrent to many to use their buildings in an environmentally friendly way or even at all which is seen all over the UK with the number of buildings that are kept empty or underused for long periods of time along with idle development sites. There needs to be a tax incentive to use land and buildings efficiently and to encourage the decarbonisation of buildings. With LVT, land and buildings would certainly be used efficiently and not left empty or used form speculative purposes and would reduce demand for rural developments and long distance commuting. With LVT, a Green tax on buildings that are not environmentally sound would not see more buildings taken out of use as would happen under business rates by owners wanting to avoid them.

Also including the value of the building, and even plant and machinery, in business rates assessments discourages green investment.

5.1 Valuation transparency and appeals

23 What further changes would you like to see made to the (a) Check, (b) Challenge and (c) Appeal stages?

With LVT the experience of those US jurisdictions with a two-tier property tax referred to in our response to Q15, there would be fewer appeals. For good decision-making in initial valuations and appeals, it is essential to have simplicity, transparency and fairness. Because valuing land is not as complex or subjective as with valuing buildings, there would be less time spent on appeals benefitting businesses and keeping costs down for all involved in the system.

24 What are your views on sharing information, such as rental/lease details, with the VOA? What are your views on the risks and benefits of this information being shared with other ratepayers, public sector organisations or more broadly?

For transparency and confidence in the system open information on valuations is essential. We can see no problems that could arise as the information is not personal but would only be on location values that are available on property websites already even if included with building values. As land (location) values are only created by our combined demand for its use and not by owners of land, it is just that land valuations should be public.

25 What are your views on who can currently use the CCA system and become party to a challenge or appeal? What are your views on who can use the system, when and on what grounds?

We argue that with LVT, the system is much more accountable that with business rates and therefore fewer appeals would rise. The system needs to be accessible to all to challenge over or under valuations.

5.2 Maintaining the accuracy of ratings lists

26 What are your views on introducing a requirement to provide the VOA with rental information, either routinely or where changes to a lease occur?

Yes all relevant information should be supplied to the VOA. Information re land ownership and all land transactions should be supplied to the Land Registry and VOA respectively.

27 What are your views on making a register of commercial lease information publicly available?

Yes, we support.

28 What are your views on introducing a requirement to notify the VOA or billing authority of changes to a property that could impact the business rates liability?

Up-to-date information re land ownership and all land transactions should be supplied to the Land Registry and VOA respectively and without any exception and is a basic requirement of LVT. This must include any permitted change of use or, for example, a natural disaster changing the nature of a piece of land, would be taken into account at annual reassessments.

5.3 The billing process

29 How can the current billing process be improved? What changes would provide the most significant benefits to ratepayers through for example, cost or time savings?

A simple billing system is essential to efficiency and transparency. With LVT the owner of each site would be billed for their LVT levy and because there would be no exemptions or reliefs the system would be simple

It should be possible to pay the tax monthly, like the Council Tax (which should also be replaced by LVT).

30 What are your views on a centralised online system linked to other business taxes, enabling more joined-up data and management of billing across different locations? How could this best support ratepayers and billing authorities?

Simplicity of collecting taxes is good for all businesses, LVT would be paid by the owners of each site but some of them will be owners of the site where they conduct their business and ownership will be in different authorities for many. (LVT needs an equalisation tool to ensure all areas contribute fairly and receive a fair share of the LVT receipts.)

31 What sort of support would businesses and agents expect to receive when moving to a centralised online process, and from where would you expect to receive it?

Free on-line training and help-line for online process is essential with easy payment procedure.

32 What, if any, criteria should be applied in exempting certain ratepayers from online billing?

Online billing and payments should be encouraged but any business or landowner with no computer or no Wi-Fi should be able to receive posted bills and make cash payments.

6 Exploring alternatives to business rates

33 What are the likely benefits and costs of implementing a CVT? What are the practical implications of implementing a CVT?

Although valuing capital values of each property appears simpler than business rates, a much simpler, less subjective, fairer and cheaper business tax to replace business rates is an annual Land Value Tax levied on all land that, with planning permission, allows an income including privately rented homes, holiday lets, farms, golf courses, hunting and fishing estates etc. The valuation of each site is according to its optimum permitted use value and a uniform levy applied to that valuation without any exceptions or reliefs. LVT is fair because together with a robust, community-led planning system a community owned urban farm in a town or city centre would pay a low LVT whereas a warehouse operated by Amazon or an office in the City of London would pay a high LVT.

Because buildings are not included in the valuations for LVT, there is an incentive to improve buildings particularly environmental improvements and self-sufficiency in energy. LVT also acts as an incentive to bring unused and under-used buildings into full use and for idle development sites to be developed providing homes and business premises at non-inflated prices. With LVT, all land would be used more sparingly and efficiently and would reduce the demand for developments that generate long distance commuting. New businesses and expanding businesses would have access to the great number of premises that are currently empty or not built (on idle sites that have planning permission) and this is essential for new innovations, small businesses in high streets and localisation in the production and distribution of goods and services reducing environmental and human damage caused on our roads. The income from LVT offers a sustainable revenue stream to pay to maintain and develop local and national public services and infrastructure. LVT, properly administered, is not avoidable or evadable and gives back to society land wealth that society alone creates. So far as LVT is concerned either rental or capital values can be used as there is a simple method of calculating one from the other thoughrental values probably make more sense than capital values for businesses.

34 What evidence is there of the benefits that replacing business rates with a CVT would have in practice, for example, on business investment and growth?

We have no comment to make on CVT other than we know from worldwide examples of shifting property taxes off buildings and on to land, businesses prosper and the income pays for infrastructure and public services. (We can provide further examples of using land value to benefit businesses and communities including the City of London, Cities in Pennsylvania USA, Hong Kong, Australia, and Saudi Arabia)

35 How can land and property be valued fairly and efficiently under a CVT in England? What evidence is available to do this?

We argue against including buildings in any valuations as this can deter attractive and environmentally sound buildings and is very subjective. Land (location) value is valued every day in the UK by professionals. Where a system of valuing land for the collection of land wealth operate, a number of methods are used including computers, GPS and mass appraisal techniques. . (We can provide further examples of using land value to benefit businesses and communities including the City of London, Cities in Pennsylvania USA, Hong Kong, Australia, and Saudi Arabia)

36 How would replacing business rates with a CVT affect the distribution of taxation?

If the replacement for business rates does not include all non-domestic sites for whatever reason, then those who avoid or evade paying their fair share will have an economic advantage over those who do. Because LVT is paid by owners of land and cannot be avoided or evaded, it means unearned land wealth (over 50% of UK's net worth) that is created only from private and public investments will benefit businesses who will have access to more really affordable sites because land speculation and land hoarding will be eliminated. The effect of shifting property tax off buildings and on to land value only, offers the opportunity to have a sound base for having a Green, fair and sustainable economic recovery with opportunities for more investment in public services and worthwhile productivity.

If other distortive business taxes, particularly VAT, were to be replaced and/or reduced with a shift to LVT, we would see an economic revival in areas currently suffering from under-investment because marginal costs for businesses to start-up or relocate to those areas will make it attractive to set up or expand businesses there. Talents and skills currently lost to the UK have an opportunity to flourish with LVT and public services have access to a sustainable income to maintain and develop public services all over the UK. The whole of society creates land wealth from our combined demand to use it for homes, business, public services, infrastructure, leisure etc so it can be argued it is fair and just that land wealth should be shared collectively and not by a minority of the population.

LVT is a Green, progressive fair and unavoidable tax and benefits worthwhile business and the whole of society.

37 What are the likely implications of moving the liability for tax from tenant to landowner or property owner? How could the government ensure effective collection from and compliance by these taxpayers?

The LLC believes the onus for paying LVT should be on the land owner and not the tenant. Land is a natural resource and how it is used and who owns it is in the public interest.

The registration of land ownership should be a legal requirement. Every land owner should be given 6 months to register their ownership. Any sites left unregistered should be granted to the local authority responsible for collecting LVT. These sites could then be used to meet local needs or rented out by the local authority.

38 What lessons can be learned from other countries experiences with CVTs?

We can offer further information of other countries collecting land value if required.

39 What other international alternative approaches to the taxation of non-residential land and property merit consideration for England?

We argue for LVT and there are examples of how land is valued and a levy applied including the two-tier property tax in some cities in **Pennsylvania** where each property pays a levy on the building value and another one on the land value. When the Mayor of Harrisburg first used this system to increase the income from land and reduce it from buildings in 1981, it saw a significant shift in how buildings and building sites were used. Derelict buildings were refurbished and idle development sites were brought into full use with homes occupied and new businesses flourishing. Employment rose and arson fell dramatically and the income was used by the Mayor to enable social programmes benefitting education and other public services. Hong Kong uses land value capture as a main means of revenue collection to pay for public services. Hong Kong's metro system and new airport were built using income from land. 2017 Saudi Arabia introduced the first step in its "White Land Tax" where a 2.5% levy on idle development sites is applied; the Housing Ministry has managed to pump SAR 100 million ($ 27 million) to complete infrastructure services in the Al-Uyayna Housing Project in Riyadh.

There are examples of land value capture being used in the UK: the City of London has collected income from owned land for over 800 years and used that income to pay to maintain (and rebuild when necessary) five of the City's bridges and funds many of the Lord Mayor's activities and Smithfields, Billingsgate and Leadenhall markets and educational institutions. Funding for Crossrail was in part from the supplementary Business Rate applied to high value commercial properties in London and was welcomed because business owners recognised the economic gain that Crossrail would bring them. Improvements to public transport raising land values because of the prosperity they bring to their catchment areas is also observed by increased land values along other worthwhile public transport routes in London, Manchester, Glasgow and other places.

40 What would be the benefits and risks of introducing an online sales tax?

An online sales tax will act in the same ways as any sales tax including VAT, it will increase the price of the goods or services it is applied, to dis-benefitting the business and the consumer. It will be avoided as much as possible and evaded if possible. The LLC supports the collection of all natural resource rents including the use of airwaves and sees this avenue for levying a fair tax for on-line businesses as being fair and progressive.

41 Which services and products do stakeholders think should be subject to an online sales tax and what evidence is there to support this?

LLC supports the collection of all natural resource wealth not sales taxes.

42 What evidence is there for the effects of an online sales tax, for example, on changes in consumer behaviour, or prices?

Any sales tax will distort consumer behaviour. LLC supports the collection of all natural resource wealth not sales taxes or any other tax that can be easily avoided or evaded.

43 How could an online sales tax affect the distribution of taxation?

LLC supports the collection of all natural resource wealth not sales taxes or any other tax that can be easily avoided or evaded.

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