



Briefing note for the clever 15-year-olds at the Treasury

As you will have heard, yesterday I announced long-overdue, deep-seated reform of our broken tax system to be begun after a 12-month review and continued through our next administration. Central to this is a shift of what we tax—off economically productive activities like work, trade and enterprise, and onto assets, notably land which accounts for 60% of UK net worth. You are going to be asked to model implementation of a tax on land wealth for this commission and I want you to build the following economic and political considerations into your evidence.

As you know, one of the few things that economists from across the political spectrum agree on is that a land value tax is the best form of tax:

- fair because rich people own more land than poor people; doubly fair in that landowners—who derive most benefit from local public sector investment—will contribute the most towards it;
- simplifies the tax system and provides stable revenue because land values fluctuate more predictably than other taxable bases;
- practical because land is easier to value than buildings and cannot be hidden;
- promotes levelling up by driving investment to deprived areas where land values are lower;
- stimulates growth by:
 - o encouraging efficient land use and rebalancing a key market,
 - o redirecting investment away from wealth-extracting assets and into wealth-creating activities,
 - o replacing economically damaging taxes.

In order to pre-empt the inevitable shrill outcry from the small but disproportionately powerful minority who would lose out, any implementation model will need to take political factors into account:

- ensure that the great majority citizens gain from the change:
 - o a key factor in this is to build in a differential between land owned for consumption (living on, i.e. owner-occupiers and mortgagees), land owned for wealth creation (business premises), and land owned for wealth extraction (landlords, land banks);
 - o bake it in with voters so any subsequent regressive administration will find it difficult to repeal, e.g. by incremental introduction over the duration of the administration with yearly increases balanced by revenue-neutral rises in the personal allowance threshold for Income Tax: within five years, millions could have been taken out of Income Tax altogether;
- make it substantial enough to reap the corollary benefits (lower economically damaging taxes, levelling-up, economic growth): history suggests that a base annual rate of 1% of capital value (or 5% of rental value) constitutes something of a threshold for this aspect. By way of information, a blanket levy of 1% of capital value would collect about £60 billion a year, i.e. some 6% of treasury revenue.

The political challenges are tough but the economic benefits are huge. Good luck.

Yours sincerely,

Rachel Reeves

***The Labour Land Campaign is a voluntary organisation working for land reform.
It advocates a fairer distribution of land wealth through a Land Value Tax.***

For more information see www.labourland.org

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