A Proposal to Replace the Council Tax and the National Non-Domestic Rates with a Land Value Tax

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This paper makes the case for replacing the Council Tax and the National Non-Domestic Rates with a Land Value Tax (LVT) payable by the landowner. It is envisaged as a first step towards replacing or reducing other taxes that have an adverse social or economic impact whilst providing the revenue to fund, at minimum, all local authority expenditure. When setting the rate of tax in the first instance, it is argued that land used for generating an income should be treated differently from that which is merely part of a person's home. For principal owner-occupied residential properties, it is proposed that LVT be set initially at a low rate, such that each local authority collected comparable revenue to that currently collected by Council Tax. For commercial and industrial properties, it is proposed that the LVT be set at a higher rate, such that it collected the same amount of revenue as that currently collected by the National Non-Domestic Rates. In addition, it is argued that the same higher rate be applied to rented residential properties, payable not by the occupier, but by the landowner – on the grounds that it is land used for generating an income – and to owners of derelict land or brownfield sites, and land banks, as well as agricultural land, in order to encourage the development of such land for public benefit. Furthermore, it is argued that owners of second homes be charged the higher rate in order to reduce the bidding up of land prices to the disadvantage of the local population. Finally, it is recommended that the lower rate of LVT for owner-occupiers be gradually raised (whilst reducing other taxes), bringing into it line with the higher rate, such that the market price of residential sites in money terms stays more or less constant, in order to reduce over time the cost of the land element in house purchases in real terms.

There are a number of powerful arguments for taxing land values. It shifts the burden of taxation away from earned income. It captures economic rent from land for public purposes, instead of going to private landowners and banks as unearned income – in effect, returning to society the value of land that society itself creates. And it acts as a wealth tax. Furthermore, it leads to more investment going into production, instead of land and property, which merely inflates prices. Finally, it is cheap to collect and has low costs of compliance, and, unlike most other taxes, it is impossible to evade through dubious accounting devices. Land cannot be hidden in an offshore tax haven.

All property taxes contain a land element that is being taxed, but as will be explained, taxing land separately from any structures on the land, has advantages. The two main forms of property tax in Britain at present are the Council Tax for domestic properties, and the National Non-Domestic Rates – also known as Business Rates – for commercial and industrial properties.

Each of those taxes has major shortcomings. This paper makes the case for replacing them with a Land Value Tax. A Land Value Tax (LVT), also known as Site Value Rating, is a tax on land according to its value, disregarding the value of any buildings or other structures on the site, and is payable by the owner of a site, not the occupier.

It should be emphasised that a Land Value Tax is quite distinct from a development land tax with which it is sometimes confused. A development land tax – which was introduced by Labour on three occasions under different guises, only to be abolished later by incoming Conservative governments – is a tax on the uplifted value

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of a site, following a change in planning consent. It has quite different economic and behavioural consequences. In particular, a development land tax tends to delay the development of a site, rather than accelerate it, as is the case with LVT.[2]

In fact two development land taxes still exist in the form of Section 106 Agreements and the Community Infrastructure Levy. In addition, there is the Stamp Duty Land Tax, which, in spite of its name, is not a land tax, but a transaction tax charged on properties over a certain value when they are sold. Furthermore, a new property tax, the Annual Tax on Enveloped Dwellings, was introduced in 2013, which is payable by companies and corporate bodies that own high value residential properties. As will be discussed, each of those taxes has significant disadvantages, and, following the introduction of LVT, it would be possible in due course to phase them out.

In this paper, the proposal is to replace the Council Tax and the National Non-Domestic Rates with a Land Value Tax (LVT) payable by the landowner on a revenue neutral basis, which would be a first step towards replacing or reducing other taxes that have an adverse social or economic impact. It would also begin the process of shifting the balance of taxation towards the big wealthy landowners, and away from the poorer sections of society. It would require a carefully worked out strategy because of the need to protect the majority of ordinary households who have become small-scale landowners as a result of purchasing their homes (which, of course, includes the land they stand on). This particularly applies to those locked into mortgages that take up a major proportion of their pay, not least due to the grossly inflated prices they have been forced to pay in order to acquire their homes, especially in London, and certain other localities, where the land element in overall property values has become exceptionally inflated.

First, how the Council Tax and Business Rates systems operate, and some of their problems, are described.

Council Tax

The Council Tax is payable to local authorities by the occupiers of residential properties. On average, it accounts for around 25 per cent of local government revenue, and is the main source of funding that is under the control of local authorities. Apart from fees charged for certain services, the rest of their revenue comes from central government in the form of direct grants (accounting for around 45 per cent of revenue), and the National Non-Domestic Rates levied on commercial properties that is redistributed back to local authorities on a per capita basis (accounting for around 22 per cent).[3] The total revenue from Council Tax in 2013-14 is expected to be approximately £27.4 billion, accounting for about 4.6 per cent of total tax receipts.[4]

The Council Tax is partly a property tax – which, of course, includes a land element – and partly a personal tax. This reflects its origin as a replacement for the deeply unpopular 'Community Charge' (actually a poll tax). It assumes a two-person household, which is why single occupants get a 25 per cent rebate. There is also an income element through the operation of the means-tested Council Tax Benefit, for which the low paid are entitled to apply. However, the take-up has been only around

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[2] See Jerry Jones, *Land Value ... for Public Benefit*, Labour Land Campaign, 2008, Chapter 5; and V.H. Blundell, 'Labour's Flawed Land Acts 1947-1976' in Nicolaus Tideman (Ed.), *Land and Taxation*, Shepheard-Walwyn, London, 1994 – both available at www.labourland.org.

[3] Since 2013-14 a portion of NNDR is now retained by local authorities – see below.

[4] Office for Budget Responsibility, *Economic and Fiscal Outlook*, March 2013.

70 per cent, so that many people, especially pensioners, lose out from not claiming their entitlement. In April 2013, the Council Tax Benefit was renamed the Council Tax Reduction, when the Coalition Government also cut back on its funding. This placed an increased burden on already stretched local authorities, and has caused hardship for many people, with some getting into Council Tax arrears.

For the purposes of collecting the Council Tax, properties are divided by value into eight Bands in England and Scotland, and nine in Wales, which are different for each of the nations (see Table 1). In England and Scotland, they are based on the property values in 1991. In Wales, they are based on a revaluation of properties, which took place in 2005.

The biggest problem with the Council Tax is that it is severely regressive. The structure of the banding system and the difference between the levels of Council Tax paid in different Bands means that the rate of tax actually falls the greater the value of the property on which it is levied. For example, someone in a house worth £1 million in 1991 pays only twice the amount as someone living in a house worth £70,000, and only three times the tax paid by those in the poorest accommodation. Furthermore, referring to Table 1(a), for England, as one goes from Band A to Band H, the tax in relation to the property value goes down. Thus, people in Band A pay, on average, more than 2.1 per cent of their property value in tax; in Band B, it is 1.9-2.4 per cent; and, by the time one gets to the top Band H, it is a maximum of 0.8 per cent, and can be very much less even than that. On top of that, as shown in Table 2, poorer Regions, pay more tax in relation to the value of their properties than richer Regions: for Band D properties, for instance, it ranges from 1.05 per cent for the North East, to 0.5 per cent in the South East, and only 0.33 per cent in London. There are also marked variations within Regions, as shown in Table 3 for London.[5]

The Burt committee, charged with reviewing local government finance in Scotland, investigated the effect of increasing the ratio of the top Band to the bottom Band from 3:1 now, to 7:1, 14:1, and 42:1, but keeping the number of Bands the same. [6] It resulted in a ‘cliff-edge effect’, such that the amount paid either side of a Bands boundary became very extreme, the more so, the larger the multiplier. This caused the committee to reject the proposal. They also rejected increasing the number of Bands on the grounds that it would shift the system towards valuing properties individually, concluding that one might as well value properties individually, which was their favoured option.[7]

Another problem with the Council Tax is that a revaluation of properties is long overdue. Although the Council Tax is based on relative values, there will have been a major shift not only in absolute values, but also relative values. This means that the tax base is considerably distorted, with some people paying somewhat more than they should, and others not enough, because they are in the wrong Bands. But revaluation is a nettle that none of the political parties has had the courage to grasp for fear of the backlash from losers. And, of course, the longer it is delayed, the more likely there will be more losers. In Wales, when properties were revalued in 2005 (that is 14 years after the original valuation in 1991), 35 per cent of households ended up paying more, because they had moved up a Band, and 57 per cent, though remaining in the same

[5] The wealthy borough of Westminster can afford a particularly low rate of Council Tax because of the revenue it gets from parking charges and fines which amount to as much as it gets from Council Tax!

[6] *A Fairer Way: Report by the Local Government Finance Review Committee* (Chairman: Sir Peter Burt), Edinburgh, 2006.

[7] As will be discussed later, a problem with valuing properties individually is that it increases the cost of assessment considerably compared with the scheme proposed in this paper.

Table 1 Council Tax Bands

(a) England (based on 1991 values)

Band	Value	Ratio	Ratio as %	Average
A	up to £40,000	6/9	67%	£845
B	£40,001 to £52,000	7/9	78%	£986
C	£52,001 to £68,000	8/9	89%	£1,127
D	£68,001 to £88,000	9/9	100%	£1,268
E	£88,001 to £120,000	11/9	122%	£1,550
F	£120,001 to £160,000	13/9	144%	£1,832
G	£160,001 to £320,000	15/9	167%	£2,113
H	£320,001 and above	18/9	200%	£2,536

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(b) Wales (based on the 2003 revaluation)

(Reset 1 April 2005 by the National Assembly for Wales, based on 2003 valuations, when, in addition to revising the band boundaries upwards, an extra band was added.)

Band	Value	Pre-2005 value	Ratio	Ratio as %
A	up to £44,000	up to £30,000	6/9	67%
B	£44,001 to £65,000	up to £39,000	7/9	78%
C	£65,001 to £91,000	up to £51,000	8/9	89%
D	£91,001 to £123,000	up to £66,000	9/9	100%
E	£123,001 to £162,000	up to £90,000	11/9	122%
F	£162,001 to £223,000	up to £120,000	13/9	144%
G	£223,001 to £324,000	up to £240,000	15/9	167%
H	£324,001 to £424,000	£240,001 and above	18/9	200%
I	£424,001 and above		21/9	233%

(c) Scotland (based on 1991 values)

Band	Value	Ratio	Ratio as %
A	up to £27,000	6/9	67%
B	£27,001 to £35,000	7/9	78%
C	£35,001 to £45,000	8/9	89%
D	£45,001 to £58,000	9/9	100%
E	£58,001 to £80,000	11/9	122%
F	£80,001 to £106,000	13/9	144%
G	£106,001 to £212,000	15/9	167%
H	£212,001 and above	18/9	200%

Table 2 Council Tax and Mean House Prices in England by Region 2012

Region	Mean Band D Council Tax	Mean house price	CT as % of mean house price	% of England's CT yield
North East	£1,525	£145,000	1.05%	4.22%
North West	£1474	£161,000	0.92%	12.02%
Yorkshire & Humber	£1411	£163,000	0.87%	8.62%
East Midlands	£1495	£170,000	0.88%	8.20%
West Midlands	£1420	£180,000	0.79%	9.53%
East England	£1490	£251,000	0.59%	12.27%
South East	£1475	£293,000	0.50%	19.36%
London	£1304	£397,000	0.33%	14.59%
South West	£1504	£225,000	0.67%	11.38%

Source: Adapted from Table 2, in Andy Wightman, *A Land Value Tax for England: Fair Efficient, Sustainable*, March 2013. See www.andywightman.com/lvt. Original sources were: Column 2 – ONS/CLG, 'Council tax levels set by local authorities in England 2012-13', 21 March 2012. Table 4; Column 3 – 'ONS Statistical Bulletin, House Price Index', July 2012. Table 2; Column 4 – Column 2 divided by Column 3; and Column 5 – 'Council tax and non-domestic rates – amount collected 2011-12', Table 6. (www.communities.gov.uk/publications/corporate/statistics/collectionrates201112)

Table 3 Geographic variations in rate of Council Tax in London 2008

Council Area	Band D Rate	% of 2006 Avg	As at
Westminster	£681.68	54%	2008
Hammersmith & Fulham	£862.77	64%	2008
Kensington & Chelsea	£1,031.15	81%	2008
Lambeth	£1,187.23	94%	2008
Islington	£1,219.40	96%	2008
Average	**£1,268**	**100%**	2006
Ealing	£1,344.10	106%	2008
Croydon	£1,357.64	107%	2008
Hounslow	£1,394.53	110%	2008
Richmond	£1,490.60	118%	2008

Due to the different make-up of each council area, Council Tax rates can vary considerably between different local authorities. Though this is less noticeable in some parts of Britain, such as Scotland, where band D rates in 2011 varied from a low of £1,024 (in the Western Isles) to a high of £1,230 (in Aberdeen), the effect can be more pronounced in parts of England, for example, in London, as shown in this Table (2008 figures, which compares the rates with the average rate in 2006).

If the Council Tax, either in its present form, or in a modified form, is to be retained, there will eventually have to be a revaluation in order for it to make sense, in which case, there would likely be many losers (who would make the most noise), as well as gainers. It makes the case for much more regular valuations (whatever form a property tax takes), so that any changes would be more gradual, and would affect fewer households. However, once a revaluation does come onto the agenda, this could provide the ideal opportunity for replacing the Council Tax with a much more equitable tax – namely a Land Value Tax, as discussed below.

National Non-Domestic Rates

National Non-Domestic Rates, or Business Rates, are a tax levied on the occupiers of non-residential properties. The National Non-Domestic Rates (NNDR) were transferred from local to national control in 1990. Now, the rates are set nationally by central government (or the devolved administrations in Scotland and Wales). The NNDR currently collect approximately £26.7 billion, accounting for about 4.4 per cent of total tax receipts.[8]

Businesses pay a proportion of the officially estimated market rent (the 'rateable value') of properties they occupy. In 2013-14, this proportion (with reduced rates for businesses with a low rateable value) has been set at 47.1 per cent (after allowing for the small business rate relief scheme). In England, businesses with a rateable value below £18,000 (£25,500 in London) are charged a reduced rate of 46.2 per cent.[9]

Various other reductions and exemptions exist, including for charities, small rural shops, agricultural land and buildings, and unoccupied buildings. Until 2013-14 tax year, the revenues from NNDR were paid into a central pool, then redistributed back to local authorities on a per capita basis. However, under a new scheme, local authorities are now able to retain around half the revenue from rates raised from new developments, for a period of up to 10 years. This is designed to provide an incentive for local authorities to encourage developments in their area. For 2013-14, around 40 per cent of the revenue from NNDR in England has been earmarked for the scheme.[10]

The normal valuation cycle runs over a five year-period. Major changes in NNDR bills caused by revaluation are normally phased in through a transitional relief scheme. The latest revaluation took effect in April 2010, based on April 2008 rental values. The government has announced recently that the rates revaluation scheduled for 2015 will be delayed until 2017, citing a desire to avoid 'sharp changes' to rates bills. However, even without the delay, the use of 2008 valuations are causing problems in some parts of the country, due to the differing effects of the economic downturn. Thus, in many Northern towns plummeting rental values have left many retailers paying twice as much as they should according to the research carried out by the Local Data Company. On the other hand, those in London are benefiting from the delay, because there, rental values have increased by over 50 per cent in the same

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[8] Office for Budget Responsibility, *op. cit.*

[9] Department of Communities and Local Government, *Statistical Release: National Non-Domestic Rates to be Collected by Local Authorities in England 2013-14*, February 2013.

[10] *Ibid*. However, it has been said that the complicated system of 'tariffs', 'top-ups', 'levies' and 'safety nets' might limit the rate at which revenue raised from such additional developments can benefit local authorities. Another recent development, since 2010–11, is that English local authorities are permitted to levy a supplementary business rate to pay for economic development projects. Subject to certain restrictions, this supplementary rate can be levied at up to 2% on properties with a rateable value above £50,000. The first use of this additional revenue-raising power was by the Greater London Authority in 2010–11 to pay for the Crossrail project.

period.[11] It is another example of what happens when valuations for property and land taxes are delayed.

In the case of NNDR, this is related to the relatively high costs of valuing individual premises (because of their great diversity), and also the fact that valuations give rise to a considerable number of appeals.[12] As will be discussed, this problem could more or less be resolved if the NNDR were replaced by a Land Value Tax.

Land Value Tax

The basic principle of a Land Value Tax (LVT) is that it returns to society the value of land, or economic rent, that society itself creates. As an economy develops, this increases the demand for land in particular locations, but because the supply of land is fixed, its value tends to rise, and therefore its price. When land is privately owned, without LVT, it is the landowners who benefit without having contributed at all to the growth of the economy. They will be able to sell the land, or rent (or hire) it out, at a higher price than otherwise. This is equivalent to unearned income (or the appropriation of economic rent) at the expense of the rest of society. With LVT, society would receive that income, which could be used for public benefit.

In Britain, up to now, it is the 200,000 or so families who own some two-thirds of Britain's land, including some of the most valuable land in cities, who have gained the most – at the expense of the rest of us. Over the years, or even centuries, they will have accumulated vast amounts of economic rent – from the sale of small parcels of land from time to time to property developers, or from renting (or hiring) out land to farmers, residential and commercial tenants, and those involved in commercial and industrial activities – which, in the form of financial capital, they have been able to invest elsewhere. The introduction of LVT would begin the process of redressing that gross economic injustice.

Small-scale landowners, especially people who have bought their own homes, also may benefit from economic rent. ***But the banks that lend the money to enable ordinary people to make such a commitment benefit much more.***

To take a concrete example, a 2-bedroom house in South West London bought for £5,000 in 1969 – approximately £59,000 in today's money would now fetch well over £300,000. If it were sold at that price, that would represent a capital gain – roughly representing the accumulation of economic rent – of £241,000 since 1969. Of course, for an ordinary homeowner, if he or she were trading up, that money would disappear into the inflated price of a new property, and if left to heirs, similarly. If trading down, or if selling for cash, that would represent unearned income derived from others. If the homeowner had been on the 'property ladder' for a long time, the huge increase in value of the property (or more precisely the land on which it stands) would act as collateral for them to borrow more at a lower rate of interest for the consumption of other goods or services, such as the purchase of a car, or an expensive holiday – which, again, in effect, makes use of economic rent appropriated from the rest of society.

If LVT had been in place since before 1969, and assuming it collected the full rental value of the site, the property would have sold for £59,000, and society would

[11] 'Retailers in regions hit by business rate load', *Financial Times*, 26 September 2013.

[12] Thus, according to research by Tony Vickers, the Valuation Office Agency, which is responsible for the valuations, a few years back was spending four times as much on contesting appeals against property assessments as it does on producing the ratings lists. (Tony Vickers, 'From Zee to Vee: using property tax assessment to monitor the economic landscape', paper presented to the third Global Environmental Taxation Conference, Woodstock, Vermont, 2002; available at www.labourland.org.)

have gained, more or less, that £241,000 in the form of LVT (depending upon the precise pattern of changes in land value over that period of 42 years).

Meanwhile, in the absence of LVT, for the person buying the property today for £300,000 (instead of the £59,000 that would have been the price had the full amount of economic rent been collected through LVT)), assuming he or she had to take out a mortgage, and lay out a 10 per cent deposit, the amount that would have to be borrowed, instead of £53,100, had LVT been in place, would be £270,000 – a difference of £216,900 (see Table 4). If that had to be repaid over 25 years, at an interest rate of 5 per cent, it would mean the bank would get in interest in today's money approximately £209,000, instead of just over £41,000 had LVT had been in place – a gain to the bank of £168,000 at the expense of the homeowner. If the homeowner had paid the same deposit of £30,000, leaving a mortgage of £29,000 payable over two years (Column 4, Table 4), the interest would only have come to just under £2,200 compared with the £209,000 the banks get when there is no LVT.

Table 4 Interest paid to banks with and without LVT

(Based on two bedroom house bought for £5,000 in 1969 (£59,000 in 2012 prices), now worth £300,000)

	No LVT	**With LVT**	**With LVT** (£30,000 deposit)
Price	£300,000	£59,000	£59,000
Deposit	£30,000	£5,900	£30,000
Mortgage	£270,000	£53,100	£29,000
Mortgage period (yrs)	25	25	2
Interest rate	5%	5%	5%
Repayments per annum	£19,157	£3,768	£15,596
Total Repayments	£478,929	£94,189	£31,193
Plus deposit	£30,000	£5,900	£30,000
Total cost	£508,929	£100,089	£61,193
Total cost split 3 ways			
Building	£59,000	£59,000	£59,000
Land	£241,000	0	0
Interest	£208,929	£41,089	£2,193

Calculations courtesy of Mark Wadsworth, Research Officer, Labour Land Campaign

Multiply those figures in Column 2 (Table 4) for the millions of transactions and households who have been through that process, and one gets a glimpse of the billions of pounds in economic rent that banks have accumulated over the years – at the expense of the rest of society. That in itself, surely, is an argument for introducing LVT as quickly as possible.[13]

But the relevance of the above discussion to the present context is the enormous amount of revenue that could be collected for public purposes through LVT – and without the deadweight losses characteristic of other taxes, since LVT tends to

[13] In addition to that moral argument, which reveals theft on a grand scale, the introduction of LVT would have important additional economic and environmental benefits. These are summarised in the *Manifesto of the Labour Land Campaign*, and discussed in more detail in Jerry Jones, *Land Value ... for Public Benefit*, *op. cit.*, both available at www.labourland.org.

stimulate economic activity rather than hold it back.[14] Some idea of the potential may be gleaned from the following.

First, consider residential land, which constitutes approximately 70 per cent of the value of Britain's land. According to a recent survey, the market value of privately-owned residential property in Britain is approximately £5,500 billion.[15] Adding in the capitalised value of the annual outlay in Council Tax, which amounts to around £500 billion, that gives a total residential property value of £6,000 billion. Assuming land value (somewhat conservatively) is about 55 per cent of that, and it is taxed at 5 per cent – which, depending on the discount rate, would capture more or less all of the economic rent of residential land – the revenue would amount to £165 billion.[16]

On top of that, there would be the revenue from commercial land, and land used for agriculture, the values of which are approximately £900 billion and £200 billion, respectively (see below). Taxing that at the same rate would bring in a further £55 billion in LVT, giving a grand total of £220 billion – just to compare, more than the revenue that is currently collected from Income Tax, Council Tax, NNDR and Stamp Duty Land Tax combined. That gives some idea of the potential revenue from economic rent in the form of LVT.[17]

Valuing land separately from buildings is often presented as a problem. However, as discussed elsewhere,[18] once the system is established, valuing land is relatively cheap because it can make use of modern Geographical Information Systems, and computer-aided mass assessment methods, and it can be ongoing, and continuously updated, more or less automatically. In fact, valuing land is much easier, and more accurate, than valuing buildings, or whole properties (that is, land plus the buildings). For buildings, such things as the state of repair, what the buildings are being used for, how old they are, their architectural merits, their internal space, and so on, have to be taken into account, whereas the value of the land element depends only on the location – and planning regulations.

The problem is, how to introduce LVT, or more specifically, what transitional arrangements are needed for LVT to be introduced with the least side effects that might cause harm to people and businesses whose activities have evolved under the existing tax regime. That is what the remainder of this paper will discuss. In particular, it is argued that, when introducing LVT, ***land used for production which generates an income should be treated differently from land that is essentially a part of consumption – mainly owner-occupied residential land, or land used for public amenities.***

Replacing the Council Tax with a Land Value Tax

One of the major concerns (both among politicians and the public at large) is what adverse repercussions any changes in the tax regime might have on people's life-styles. One effect of a Land Value Tax if applied at a relatively high rate, say, 4-5 per

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[14] Jones, *op. cit.*

[15] Savills Estate agent in February 2013 gave it as £5,000 billion, but more recent estimates put it as £6,000 billion. We have split the difference.

[16] This is based on the assumption that the average rebuild cost is £100,000 (probably an overestimate), which for Britain's 2.7 million homes would amount to £2,700 billion, leaving £3,300 billion as the land value, or 55 per cent of the property value.

[17] In addition, there would be no need for special schemes, such as that for Crossrail mentioned earlier, since they would be financed automatically from the additional revenue generated as a result of the increased land value in the areas benefiting from such schemes.

[18] Jones, *op cit.*; Vickers, *op. cit.*

cent of capital value – which is what would be needed in order to maximise the economic benefits of LVT, and for society to get back the economic rent that society itself had created – would be to reduce substantially the market price of land, and therefore of property, because it would be discounted by the annual outlay of LVT.[19]

The plus side is that this would render the purchase of homes much more affordable, and less economic rent in the form of interest would disappear into the coffers of banks.

However, it would not be good news for the nearly 70 per cent of households in Britain who already live in owner-occupied homes (nor for the politicians who depend on them for votes). They would not like to see a decline in the market value of their property (that is the price it would fetch if sold) – which, more often than not, is their main form of wealth (or potential wealth if they are still paying off their mortgage) – especially as most homeowners have got used to the idea of it increasing in value year by year. No matter that if property prices did decline and people got less when they sold, they would also pay less for the properties they moved to, so it would make little difference. But in spite of that, people inevitably would feel worse off – all the more so among those who had borrowed heavily in their desperation to buy a home.

But if LVT were merely replacing Council Tax, as recommended in this paper, owner-occupied residential property prices on average would not decline. That is because if, on average, the amount of revenue collected were the same, the price of properties would be discounted by the capitalised value of the annual outlay to the same extent, whether it were Council Tax or LVT. Of course, among individual homeowners there would bound to be winners and losers, but no more so than following a revaluation of properties for Council Tax purposes – which, as already noted, is desperately overdue.

Using the figure for the total value of residential property given previously of £6,000 billion, and assuming, as before, that the land component is 55 per cent of that (£3,300 billion), in order to obtain the revenue that Council Tax currently collects (£27.4 billion), the rate of LVT would need to be set at about 0.85 per cent of capital value.

However, in some localities, most notably London, but to a lesser extent in certain other localities too, where land values have risen excessively, LVT set at that rate would mean that the revenue raised, and the outlay for households, would greatly exceed that currently collected through Council Tax. In order for households not to receive a bill greatly exceeding their current Council Tax bill in those localities, it is proposed that the rate of LVT be set by each local authority such that the LVT collected the same amount of revenue as currently collected by Council Tax – or more precisely (since, for reasons discussed below, it is proposed that rented homes be treated differently from owner-occupied homes), the same amount of revenue collected through Council Tax from owner-occupied households. In other words, the rate of LVT would vary for each local authority, such that the 0.85 per cent figure would represent merely an average figure.

It is envisaged that over time, as the economy adjusted to the new LVT regime, and in order to optimise the economic benefits of LVT, these multiple rates of LVT would converge, and indeed – in parallel with reducing other taxes – raised so that the full economic benefits of LVT can be achieved.

During this transition period (say, 20-30 years), the aim would be to ensure that property prices in money terms would stay more or less constant, so that households

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[19] Note that although the market price will go down, the value of the land would remain unchanged, because it would comprise the market price plus the capitalised value of the annual outlay of LVT.

with large mortgages would not be penalised, but at the same time it would bring down prices in real terms (discounting inflation), making home ownership more affordable. Meanwhile, it is proposed that owners of second homes be charged the higher rate of 3 per cent of capital value in order to reduce the bidding up of land prices to the disadvantage of the local population. In addition, it is proposed, for the sake of fairness, that the owners of large country estates, which may contain valuable assets such as mountains, lakes, rivers and natural flora and fauna, should be liable for LVT at the higher rate.

A major advantage of the scheme as proposed here compared with, say, the proposal of the Burt Committee, which was to assess each property individually, is that it would greatly reduce the costs of valuation. Maps showing a 'land-value-scape' have been proposed, analogous to topographical maps, but instead of demarking altitude with contours and different shades of colour, identifying sites and zones with 'contours' (or 'patches') with the same land values per hectare or square metre in different colours, which would be open to public scrutiny.[20]

But more importantly, it would introduce the principle that the main aspect of property values now is the land element, which is highly dependent on location and investments (both public and private) taking place in the vicinity, or that have been undertaken in the past. And it would begin the process of collecting the economic rent from land – which should belong to everybody – for public purposes.

In other words, it would establish the mechanism that would bring to an end the constant escalation of property prices – which not only hugely benefits the banks at the expense of everybody else, but also forces homeowners to lay out a major part of their wages on mortgage repayments, and puts home ownership beyond the reach of young people without rich relatives.

LVT and rented residential properties

Unlike land used for owner-occupied homes, which may be considered a form of consumption, land used for rented homes, from the landlord's point of view, is income generating, and therefore, as implied already, should be treated differently – in fact, exactly like a business, which is what it is. Thus, it is proposed that rented residential properties should fall under the same LVT regime as for businesses (to be discussed next), which would mean that the rate of tax would be 3 per cent of capital value (though this could be varied in the first instance to take account of particular circumstances or to achieve particular objectives). It is proposed that this higher rate would apply also to the owners of leases in the case of leasehold owner-occupied properties.

In this case, the tenants, unlike now, would not be liable to any kind of property tax – which is fair because they do not actually own the property where they live. There may, of course, be instances when the owner of the rented property (the landlord) might not actually own the land on which it stands, in which case it would be the landowner who would be liable for the LVT. Under this regime, as with shifting from NNDR to LVT in other business sectors, the building would not be subject to tax.

It is proposed also that the higher rate of 3 per cent of capital value should apply to the large land banks and other empty sites with or without planning consent for building residential properties. This would act as an incentive to develop those sites as quickly as possible, and also bring down the price of land, so that more capital would be available for investment in the actual construction of homes. In addition, the lower

[20] See Vickers, *op.cit*.

costs of land would help local authorities and other social landlords to overcome the current shortfall in affordable homes for rent.

Meanwhile, it is recommended that the landowners should be able to offset the LVT due against Corporation Tax, if a big commercial landlord, or Personal Income Tax, if a small business, the LVT being regarded as a cost in the accounts. In other words, in effect, LVT would in part be replacing those other taxes, which would reduce opportunities for tax avoidance through dubious accounting practices involving offshore tax havens – one of the major advantages of LVT.

Under these proposals, the revenue from LVT would considerably exceed that currently obtained from Council Tax levied on tenants. This would go some way towards the costs of phasing out other property taxes that have either a negative impact on the economy or the property market, or are simply inefficient (see below).

Replacing the National Non-Domestic Rates with LVT

The overwhelming case for replacing the NNDR with LVT is that it would be much cheaper to collect, because it would not involve the need to assess the value of buildings, which are particularly difficult in the case of commercial premises, because of their immense variety in every respect (offices, shops, warehouses, factories, power stations, and so on). In addition, it would act as an incentive to make the best use of the land occupied, subject to planning regulations, and encourage investment to achieve that object. Furthermore, since around two-thirds of the land on which business premises are located is rented,[21] it would remove the liability of those owning the business from having to pay a property tax in addition to the rent, which would mean that they would have more to invest in their business, thus benefiting economic development.

The current total rental (or rateable) value of business properties in England, according to the Department for Communities and Local Government, is approximately £57.2 billion.[22] For Scotland it is £6.6 billion.[23] The total for Britain, adding a bit for Wales,[24] therefore, is approximately £65 billion. Assuming a discount rate of 5 per cent, that gives business properties in Britain a market value in capital terms of £1,300 billion. Adding in the capitalised value of the annual outlay of NNDR (assuming a discount rate of 5 per cent), which amounts to about £500 billion, this gives a total value for business properties of £1,800 billion. Assuming half that is land value, this would mean that the capital value of non-domestic (and non-agricultural) land would be approximately £900 billion.[25] To obtain revenue from LVT to match the current revenue of the NNDR of £26.2 billion, therefore, the rate of LVT would have to be approximately 3 per cent of capital value (which would yield approximately £27 billion).

It would also be appropriate to tax the land banks held by commercial developers, derelict land or brownfield sites at the same rate, since this is land that has the potential of generating an income, and, as noted already, it would act as a major incentive for the owners of such sites to develop them as quickly as possible in line with prevailing planning regulations.

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[21] *Property Data Report*, July 2010 (Paul Mitchell Real Estate Consultancy Ltd., at www.pmrecon.com).

[22] Department for Communities and Local Government, *Statistical Release: National Non-Domestic Rates to be collected by Local Authorities in England 2013-14*, February 2013.

[23] www.scotland.gov.uk/Resource/Doc/917/0098553.pdf [April 2010 figure following revaluation]

[24] At the time of writing, up to date data for Wales were not available.

[25] In fact, the proportion that is land value is likely to vary considerably, but it is assumed here that it averages out in order to give an idea of the rate of LVT that would be needed.

Introducing LVT for agricultural land
Currently, agricultural land (including forestry) is exempt from NNDR, or any other kind of tax (such as Inheritance Tax). The case for introducing LVT on agricultural land, as in other cases, is that it would encourage the best use of land, but above all, stop agricultural subsidies from feeding into higher land prices and rents (in other words, big landowners' bank accounts), leaving more available for investing in the actual production process, making it more efficient.

Systems for assessing the value of agricultural land are already well developed, with statistics published by the Valuation Office Agency and others. According to data from the Valuation Office Agency on unequipped farmland with vacant possession, which ignores farmhouses, buildings and other farm equipment (assuming this was a better proxy for just the land), prices ranged from just over £7,400 per hectare to nearly £15,000 per hectare in 2011.[26] Averaging these prices across the country for the different farm types, and weighting them according to the areas involved in different farming activities,[27] and taking into account the average increase in the value of farmland in 2012-13,[28] it is estimated that the total value of agricultural land in Britain is approximately £200 billion. If this were taxed at the same 3 per cent rate as that proposed for other commercial land, this would yield about £6 billion.

Other taxes related to land or property
Other taxes in this category, as mentioned already, include Section 106 Agreements, the Community Infrastructure Levy, the Stamp Duty Land Tax, and the new Annual Tax on Enveloped Dwellings.

The problem with Section 106 Agreement payments – which are essentially a form of development land tax – is their ad hoc nature, and the lack of clarity of criteria used for arriving at such Agreements. Nominally, they can only be levied in order to 'mitigate harm' that would otherwise arise from the development, such as increased traffic congestion on local roads, overcrowding in local schools, or the tendency for developments to favour luxury housing at the expense of affordable housing required by people who work in the area. This, of course, is all a matter of interpretation. Section 106 Agreements, therefore, are notoriously variable and unpredictable between – and even within – planning authorities, and half of all planning authorities in 2006 were not even using Section 106 Agreements.

Much depends on the negotiating skills of local planning authorities, which, if genuinely acting in the public interest, will want to extract the maximum contribution from property developers. The latter, on the other hand, will seek to keep their obligations to a minimum. Consequently, negotiations can be protracted, perhaps involving expensive legal advice and lawsuits, or appeals against decisions made by the planning authorities. This can make Section 106 Agreements costly to implement, not least because of the delays before society will benefit from the developments being proposed. Furthermore, because of the opaqueness of Section 106 Agreements, it is often hard to 'dispel the whiff of corrupt paying for planning permission', tending to favour big national and international property developers, at the expense of local builders who might have a more genuine interest in the local community.

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[26] Valuation Office Agency, *Property Market Report 2011*.
[27] Jawad Khan and Tamara Powell (Office, for National Statistics) and Amli Harwood (University of East Anglia, *Land Use in the UK*, 2013. (www.landuseintheuk_tcm77-316028.pdf)
[28] 'UK farm land values reach record highs', *Property Wire*, 22 February 2013.

The Community Infrastructure Levy is a system of tariffs, or 'Planning Charges', similar to the Infrastructure Tariff operating in Milton Keynes, which is a levy proportionate to the size and scale of a development. Under this system, which would partially replace Section 106 Agreements, in exchange for receiving planning permission, developers have to agree to pay a Planning Charge or Levy when told to do so by local authorities, so that infrastructure can be provided. which, would be curtailed to the provision of affordable housing and costs associated with particular sites. However, under such a system, landowners and property developers would still be able to withhold land from use, watching its value rise, simply by not seeking planning permission. Moreover, the Planning Charge or Levy is merely a one-off payment, and paid only by the developer, and not by neighbouring properties benefiting from the development, thus limiting the amount of revenue that can be raised.

The problem with the Stamp Duty Land Tax is that it discourages the change of ownership of properties. In effect, therefore, it penalises those wishing to move to a more convenient location, or more suitable premises, and therefore encourages the inefficient use of land and buildings.

The Annual Tax on Enveloped Dwellings, introduced in 2013, is payable by companies and corporate bodies that own high value residential properties.

As noted earlier, all of the above taxes could be phased out or abolished following the introduction of LVT, offset by the additional revenue for LVT charged on rented residential properties, and that obtained from land banks and derelict sites.

Capital Gains Tax and Inheritance Tax may also apply to land and property. Although principal private residences are exempt from Capital Gains Tax when sold, there are some restrictions, such as: if the house was not used only as a main residence throughout the period of ownership; the garden or grounds, including the site of the house are greater than 5,000 square meters; part of the home was ever used exclusively for business purposes; or, all or part of the home has been rented out. To some extent the introduction of LVT would replace some of the revenue currently obtained from Capital Gains Tax and Inheritance Tax.

Should a Land Value Tax be national or local?

It can be both – or either. The downside of leaving the revenue and the rate of tax entirely in the hands of local authorities is that in Britain's highly unequal society, those living in richer areas, which have lower expenditure on social services and the like, and therefore would not have to raise so much revenue as poorer areas, would tend to end up paying less tax than those living in poorer areas. As observed when discussing the current Council Tax regime, and from Table 2, people living in the more affluent London and the South East, on average, were paying less Council Tax as a percentage of house prices than those living elsewhere, most notably the North East. Keeping the taxes local, therefore, would tend to perpetuate inequalities.

Second, in the case of land taxes, there is the issue that land values are not only, or even primarily, generated locally. Many large towns and cities, notably London, acquire higher land values not only from their citizens' own efforts and resources, but also from the economic activities taking place far beyond, even in the nation as a whole, or beyond. They also benefit more from public investment in amenities and infrastructure financed by the nation as a whole. The land value that these activities generate, therefore, cannot be said to originate solely from the activities of the inhabitants of those towns or cities.

In short, if LVT were collected only locally, some local authorities would be in a position to raise the revenue that they require from a relatively low rate of tax, while others – say, in the hinterland of large towns or cities, or beyond, where land values are low – might find themselves having to set a higher rate of LVT in order to obtain the revenue that they require, because they would receive nothing for the contributions that their citizens make towards raising land values in the nearby towns and cities.

The supposed downside of a centrally controlled system – in which both the rate of tax, and how the proceeds are allocated to local authorities, is decided centrally – is that, in effect, it divorces the collection of tax from the services provided by local authorities. This, arguably, undermines the relationship and accountability of local politicians to their constituents, representing a 'democratic deficit'. Indeed, this is very much one of the criticisms levelled at the current system of local authority finance, in which some 75 per cent of revenue derives from central government, either directly, or through the redistribution of the NNDR (and a much higher proportion if account is taken of the many national services, which in fact, are managed locally, such as the NHS, the police force, the fire service, and so on). However, in all these cases, local politicians would still largely be responsible for how the funds at their disposal were spent, for which they would be answerable to their constituents – so to that extent democracy would prevail.

The simplest and fairest scheme from an administrative point of view as far as LVT is concerned would be for central government to set the standard rate of LVT nationally (say, 3 per cent of capital value, initially, as recommended here), and to supervise the concessionary rates of LVT for primary owner-occupied residences in each local authority area, and for local authorities to collect the revenues from LVT. Grants from central government, based on population and needs, would then be reduced by the amount of LVT local authorities are able to collect. In richer areas, this could mean that the local authorities would be paying some of their revenue from LVT to central government, which would apply to more and more local authorities as the standard rate of LVT, over time, was gradually extended to all land (whilst reducing or abolishing other taxes that have adverse impacts on the economy).

Myth buster

To conclude, a number of myths concerning Land Value Tax need to be laid to rest, given the propensity for mainstream economists and commentators to misrepresent the facts.

1. It is hard to value land objectively and separately from the structures on the land.

First, it is often thought that the valuation of properties is a matter of opinion – if one seeks to have a property valued, agents invariably come up with different answers. However, that is not how properties are valued for taxation purposes. It is based on the prices that properties actually fetch when sold, not on someone's opinion on what they might fetch if put on the market. In other words, it will be based on objective data, which is already held by HM Land Registry.

Next, it is often thought that valuing land accurately and separately from the buildings and developments on the land is more difficult than valuing properties as a whole – especially as the incidence of bare land being sold, which could provide a benchmark for valuing other land, is less common. However, as the Mirrlees review points out, 'there are recognised methods for determining land value where the market for land is thin: where similar buildings are valued differently according to location,

for example, it is not hard to imagine that the difference in overall value reflects the difference in land values'.[29]

In fact, valuing land is less complicated than valuing buildings. That is because the only factors that need to be considered are location and potential use consistent with prevailing planning regulations, whereas for buildings, additional factors, such as the state of repair, what the buildings are being used for, how old they are, their architectural merits, their internal space, and so on, have to be taken into account. The valuation of land, therefore, can be more easily generalised. As pointed out already, this allows the extensive use of modern information technology, including computer-aided mass assessment and Geographical Information Systems (GIS). Indeed, at least seven methods for valuing land have been recorded, which can be used as a crosscheck on one another.[30] By collecting data on valuations and sales of similar properties in different locations, and on the valuations and sales of different properties in the same neighbourhood, including differences between property prices and their values for insurance purposes, and other data, it is possible to arrive at accurate estimates of land values over the whole country.[31]

Once such a system for valuing land is up and running, by recording and tracking property sales and other data throughout the country, it would be possible to update land values more or less continuously. Over time, it would be possible to incorporate new data – perhaps using a points system that would take into account proximity to amenities and services, which would increase land values, or congested roads or unsightly vistas, which would depress values – so that the system of land valuation would become ever more refined.

In short, it is not true that valuing land is problematic, as opponents or sceptics of land value taxation often assert – often the same people who quite happily accept the valuation of buildings, even though this is more difficult. Valuing land, especially in towns, which is where the most valuable land is located (because it is in high demand) is much simpler, because, as discussed, it depends essentially on location, and planning consent. Indeed, in the United States, in towns where a split tax system operates, the staff required for assessing land values is about a tenth of those needed for assessing buildings, and the number of appeals against land valuations is a small fraction of those involving building valuations (for reasons given earlier).

2. *A site with an expensive house (or block of flats) on it would pay the same LVT as one of similar size containing a small house, which would not be fair*. This was one of the reasons given by the Burt Committee on the future of local taxation in Scotland, already mentioned, for rejecting LVT in favour of a straight property tax as a replacement for Council Tax.[32] Under the Council Tax regime, they would pay quite different amounts according to which Band they were placed in, but under LVT, the Committee argued, they would pay the same. However, this is based on a misunderstanding of what determines the value of a site. It assumes that the two sites, because they have the same area, would have the same land value. But land values are

[29] J. Mirrlees, S. Adam, T. Besley, R. Blundell, S. Bond, R. Chote, M. Gammie, P. Johnson, G. Myles and J. Poterba, *Tax by Design: the Mirrlees Review* Oxford University Press, 2011, Chapter 16'The Taxation of Land and Property' (see also www.ifs.org.uk/mirrleesreview)

[30] Ted Gwartney, 'Estimating Land Values', paper presented at conference Arden, Delaware, 1999, at www.henrygeorge.org/ted/htm. See also Ted Gwartney, 'Methods Used to Value Land'(1999) www.labourland.org.

[31] The Valuation Office Agency even now publishes estimates of land values for residential, industrial and agricultural land for different Regions of the country.

[32] *A Fairer Way: Report by the Local Government Finance Review Committee, op. cit.*

determined not only by the area of a site, and its location, but also by optimal permitted use.

If it is assumed that all sites are put to optimal permitted use – or were at the time the houses were built – then the owner of the small house would pay less than the owner of the large house on the same size site, because the owner of the small house would not have planning consent for a big house, so the land value would be less. If the owner of the small house obtained planning consent to knock down the small house and build a big one, this would raise the land value to the same as that for the site with the large house already built, and therefore the liability to LVT. If the owner of the small house (or, for that matter, the owner of the big house) obtained planning consent to build a block of flats, the land value would be much higher still (which would result in them making a large profit if they sold the site – discounted, of course, by the future outlay of land value tax). In short, to a large extent, the system of land value taxation allows for properties of different sizes on similar size sites to be taxed in proportion to their size.

3. *Land and property taxes are divorced from the ability to pay*. It might be expected, logically, and through necessity, that people will live in homes with mortgages that they can afford, and that the value of properties, upon which land and property taxes are based, would correspond quite closely to people's income. This has been borne out by research, for instance, undertaken by the Joseph Rowntree Foundation, which found that low income households are heavily concentrated in the lower valuation Council Tax Bands. Low income households in high value properties were very much the exception.[33]

Furthermore, it should be emphasised that under the proposal outlined in this paper, LVT is merely replacing Council Tax, and, as with Council Tax, those taxes represent only a small fraction of the taxes that have to be paid, either directly or indirectly (that is, about 4.5 per cent – the proportion that Council Tax currently contributes to the total taxes paid). Of course, this situation would change if the rate of LVT were raised in parallel with reducing other taxes that have an adverse social or economic impact, which is what is required to realise the full benefits of LVT. However, although that may be the goal in the long run, in today's highly unequal society, it is liable to put many people at a disadvantage, and, as discussed already, is not recommended here when LVT is first being introduced.

Meanwhile, a concern, often expressed, is the extent to which LVT may penalise those who are asset rich but income poor – often stereotyped as the poor widow situation. This may arise because people with a fixed income had bought a home that was affordable at one time, but whose value, and therefore the tax liability, during the course of time had increased. Or, it may arise because a person's income had plunged, perhaps as a result of job loss, or simply retiring on a low pension. However, the incidence of such cases tends to be exaggerated by those opposed to LVT (normally the rich).

In fact, the above mentioned Joseph Rowntree study found that only around 200,000 pensioner households in Britain with low or modest incomes lived in a Band F to H property, while some 3.9 million lived in a Band A to C property. Similarly, the Centre on Household Assets and Savings Management, based at the University of Birmingham, found that only 4 per cent of those who were retired in 2010 had both an

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[33] Michael Orton, *Struggling to Pay Council Tax: A New Perspective on the Debate About Local Taxation*, Joseph Rowntree Foundation, 2006; p. 13.

income below the official poverty line and housing equity over £100,000.[34] Moreover, replacing Council Tax with LVT at an average rate of tax less than one per cent, as proposed here, would mean that only people in houses worth more than about £600,000 would end up paying more. People in small houses, which is where most low paid and poorer people live, would pay less – and if they were in rented accommodation they would not pay anything at all.

Nevertheless, no doubt, there are likely to be special hardship cases. These could be dealt with by a scheme similar to the current Council Tax Reduction scheme, which could be retained (and improved) as long as it were needed. Second, a scheme could be introduced to allow pensioners with low incomes to defer (or roll over) the payment of LVT, either wholly or in part, until the property was sold or transferred to heirs. This would enable people to carry on living in their properties at no extra cost, and, if they so chose, to pay less tax than they do now. (It would not be suitable for those below retirement age.) Third, people could choose, as many already do, to move to smaller homes (for instance, when their children leave home), or to an area where property prices were lower, using the cash difference for other purposes.

4. Landowners will pass on a Land Value Tax to their tenants. How much rent a landlord can charge, for either residential or commercial properties, depends on a number of factors, which include the costs of acquiring properties for renting out, and of maintenance, the taxes he or she is obliged to pay (whether or not LVT), and above all, the supply and demand situation, or what the market will bear, and the state of competition, and the existence, or otherwise, of tacit collusion. The basic economic argument that LVT cannot be passed on is that the rent a landlord is able to charge is already set at what the market will bear, so that the introduction of LVT as a replacement for other taxes will make little difference.

Over time, as with all taxes, who actually pays depends greatly on the relative bargaining positions of the parties involved, which more or less applies to all taxes. For instance, if workers are in a strong bargaining position, employers may have to pay over the odds to compensate workers for the Income Tax deducted from their pay, so that, in effect, the bosses would be paying the tax. And the opposite, if workers are in weak bargaining positions. With an increase in VAT, if consumers are in a strong bargaining position (for instance, when supplies are plentiful), in order to sell their products, producers or suppliers would have to drop the price, in effect, absorbing the additional VAT. Similarly with rents. Landlords can only charge what the market will bear, which is determined by supply and demand, and, both before and after LVT, that would determine the rents they could charge. This would limit their capacity to pass on the cost of LVT.

5. Not taxing tenants would mean they would not be paying for services provided by local authorities. Not true. They would be paying for them through the rent they pay to the landlords. Besides, most local services are paid out of general taxation at national level (for example, policing, the NHS, schools), plus contributions to local authority budgets from general taxation.

[34] Karen Rowlingson, *Briefing Paper*, Centre on Household Assets and Savings Management, University of Birmingham, September 2012. The official poverty line was defined as below 60 per cent of median income, equivalised for different household types. See also, Sonia Sodha, *Housing-Rich, Income-Poor: The potential of housing wealth in old age*, Institute for Public Policy Research, London, October 2005.

6. It is hard to value mixed-use premises. The taxing of mixed-use premises which are partly a home, and partly a business (such as a guest house, those living above a shop or workshop they own, or a farm house) is often thrown up as a problem. For instance, in the scheme proposed here, businesses and residences pay a different rate of LVT. Such situations, of course, exist now, in which the residential part would be subject to Council Tax, and the business part to NNDR. However, the Valuation Office Agency has evolved well-tried formulae to apportion the liabilities in a satisfactory way, which could equally be applied under any new tax regime. Similar formulae could be developed to deal with the liability of those living in owner-occupied blocks of flats.

7. It is not always possible to identify the landowner. Since it is the landowner that has to pay LVT, rather than the occupier, as now, the difficulty of identifying the landowner is sometimes presented as a problem. In fact, the registration of land is about 80 per cent complete by area, and 99 per cent complete by value. The supposed difficulty is with the large landed estates where the land has remained within the family and not been bought and sold. However, since the tenants would obviously be paying rent, the bill could simply be paid by the tenants, who could be legally empowered to deduct it from the rent. This would be backed up by making use of Council Tax and NNDR databases, which must have records of where to send the bill when tenants move out. In the case of agricultural land, since the owners are in receipt of subsidies under the Common Agricultural Policy, the Department for Environment, Food and Rural Affairs have records of ownership.

Meanwhile, the process of registering the land that is not yet registered could be accelerated by requiring owners of unregistered land to register it by a certain date, after which local authorities would be given the power to acquire any unregistered land and lease it out.

8. Only the wealthy landowners should pay LVT. This would be impractical. First, it would necessitate the identification and assessment of all their individual plots of land scattered around the country, which would be costly, and, worst of all, subjective. If all land is valued, as described in this paper, this would not only be based on hard data, but also would cost less (using Geographical Information Systems and mass assessment techniques) than assessing those individual plots (assuming that they could be properly identified). If LVT were universal, those big landowners would automatically be charged, even if not all the land they own can be identified, because, as noted above, the LVT bill could merely be sent to the tenants, who would be empowered to deduct it from their rent bill.

Furthermore, this would not address the difficult problem highlighted above of the vast amount of economic rent banks get out of the current system, which can only be resolved by gradually including all owner-occupied housing into a system of Land Value Tax that would replace other taxes.

9. Land values are too dependent on planning consent. Land values are, of course, highly sensitive to planning consent, and can change very considerably once a new use has been agreed. The problem here, it is sometimes said, is that the granting of planning consent tends to be decided by planning committees behind closed doors, and, in addition, is often subject to intense lobbying, threats or even bribes by powerful vested interests seeking planning consent. It is true that although nominally a democratic process, there is plenty of room for improvement in the transparency of

the planning process. But this is a separate issue – and there are groups working on it.[35]

Meanwhile, it should be emphasised that only a minuscule proportion of land at any one time is involved in planning applications for some kind of change of use. The value of all other land would be based on its current use. Second, if landowners (or speculators) are sitting on land in the hope or expectation that they might profit from a change of use, they would still have to pay LVT on the land in line with its current designated use. Furthermore, there is nothing to stop a local authority designating a site for a new use, after which the landowner would be obliged to pay the full LVT based on that re-designated use.

In any case, even now, when a landowner or property developer is seeking planning consent for a change of use, this still has to be made public in advance of the decision, with people in the neighbourhood, and the public in general, being given the opportunity to object or comment. Moreover, the decisions do have to be taken at council meetings with the public in attendance. It is therefore nothing like as opaque as is sometimes portrayed. And there are appeals procedures.

10. LVT would lead to too much new construction or 'overbuild'. Here it is argued that landowners will seek to maximise revenue in order to raise the funds to pay the LVT (over and above their 'normal' profit). Or it may be said that public parks or private open spaces, or the 'Green Belt', might be sold off or built over. Or that land used for public services, such as state schools, hospitals, fire stations, might be sold to the highest bidder and the services relocated to lower value land elsewhere. However, as just noted, all developments on land depend entirely on planning regulations as determined by the local authority, or sometimes central government. LVT, therefore, does not come into it.

On the other hand, some may argue, local authorities may still be tempted to grant consent to 'overdevelop' a site in their quest to maximise revenue from LVT. In fact, this generally would not be in their interests from a revenue-earning perspective, because parks and other public amenities tend to enhance the value of residential properties in their vicinity, and therefore the revenue from LVT, which would be greater than the yield of LVT if those sites were developed.

Moreover, in any case, as noted above, such decisions would likely be challenged by local residents and institutions, as well as by central government – related, of course, to how well developed is the democratic process of granting planning permission. As noted already, this is a separate issue, but it is at least nominally in the public domain.

11. LVT will increase the costs of public services because of the LVT they would have to pay. As just implied, unless planning consent is granted for a change of use of the land used for public services allowing it to be sold off (which may be challenged in any number of ways), land used for public services (for example, state schools, hospitals, fire services, and so on), in effect, has zero value, and therefore would not be subject to LVT. In other words, such land would be exempt from LVT.

12. LVT will entrench 'ghettoisation'. This is the argument that desirable localities with high land values would tend to attract the rich, leaving the poor to find accommodation in poorly endowed or blighted areas with low land values, but with

[35] For instance, Planners Network UK (PNUK), which has published:
A manifesto for planning and land reform. See http://www.pnuk.org.uk

more affordable LVT. Such 'ghettoisation', and the gentrification of neighbourhoods where the poor once found affordable accommodation, would not be a consequence of introducing LVT, but a reflection of the changing structure of society.

But LVT, over time, would tend to smooth out the differences, since areas with low land values would tend to attract investments, making such areas more desirable, with better job opportunities, but without pushing up the market prices or rents of properties. All would depend, however, on other government policies, through which this issue needs to be addressed.

Conclusion

The problem with the current tax on residential property, namely the Council Tax, is that it is severely regressive in that poorer people living in lower value properties, and in areas where lower value properties are concentrated, pay a higher proportion of the value of the property (which they may not even own) in tax than richer people, living in higher value properties, and in areas where higher value properties are located.

The problem with the current tax on business properties, namely the National Non-Domestic Rates (NNDR), is that it is costly to assess, because of the hugely diverse nature of commercial and industrial buildings, whose values may change significantly over the course of economic cycles. And it tends to penalise new investments by businesses.

Replacing those taxes with a Land Value Tax (LVT) would not only reduce costs through the use of Geographical Information Systems and computerised mass assessment techniques, but also would lead to the more efficient use of land, and end the blight of derelict sites, because the requirement for landowners to pay LVT acts as an incentive to develop sites in line with permitted use. Furthermore, shifting taxation onto land values would begin the process of capturing the economic rent from land – which derives from the economic and social activities of society as a whole – for public purposes, instead of the rent, as now, going to private landowners and property developers, and, in particular, via interest on mortgages, to banks.

Moreover, it would stop credit feeding into higher property prices, which is at the expense of investment in the productive economy, with prices, since the deregulation of banking, escalating to such an extent that homeownership now is beyond the reach of most people not already on the 'property ladder' (unless older relatives can help). By gradually raising the rate of LVT over a generation, such that it collects all the economic rent from land, the ownership of land would lose all significance. The income from the land, or its use value, would derive solely from the economic activity or buildings on the land – there would be no gain simply from owning the land.

However, a major issue is that a Land Value Tax would have the effect of lowering land prices (and therefore property prices) – because the prices would be discounted by the annual outlay of LVT. This, of course, is one of the long-term benefits of LVT, because, as just implied, it would allow financial resources to go into the productive economy rather than into land, causing price bubbles. But, in current circumstances, such an effect would have a perceived adverse impact on homeowners, who would see the market value of their properties fall. This would be much less of a problem for businesses because the NNDR already collects a much greater proportion of economic rent from land than residential properties. Second, unlike owner-occupied homes, the land is being used to generate an income that can cover LVT. Third, the two-thirds of businesses that operate on rented land would benefit from the fact that the liability for tax would shift to the landowner.

In short, a much longer transition period is required for owner-occupied residential properties (but not rented residential properties, which can be treated like any other business), to take into account how the property market has evolved in the absence of LVT. That is why it is proposed here that, in the first instance, LVT would merely replace the Council Tax on a more or less revenue neutral basis. This would have no overall effect on the market values of properties (because they would already have been discounted by the annual outlay of Council Tax).

The transition could be further eased by allowing pensioners, if they so chose, to roll over the LVT due until the property was sold, and using the benefit system to help those on low incomes, as happens now with the Council Tax.

To sum up, introducing LVT will establish the mechanism that, over time, would bring to an end the constant escalation of property prices – which not only hugely benefits the banks and property speculators at the expense of everybody else, but also forces homeowners to lay out a major portion of their incomes on mortgage repayments, or puts home ownership beyond the reach of young people without rich relatives. This would be achieved by gradually raising the rate of LVT – at the same time reducing other taxes, so that taxpayers would be no worse off – with the aim of stabilising the market prices of properties in money terms, meaning that in real terms they would gradually decline, as would mortgage repayments. In other words, it brings forward the day when society as a whole would benefit from the economic rent from land created by people's economic and social activities, instead of going into the coffers of the big banks and landowners.

Summary of recommendations

Recommendation One. For principal owner-occupied residential properties, replace the Council Tax with a Land Value Tax on a revenue neutral basis. This would require an average rate of LVT, initially, of 0.85 per cent of capital values, but varying according to the total current Council Tax receipts of each local authority.

Recommendation Two. For commercial and industrial properties, replace the National Non-Domestic Rates with a Land Value Tax at a rate of 3 per cent of capital value of the site.

Recommendation Three. For rented residential properties, remove the liability to property or land taxes for tenants on the basis that they are not property owners, and treat rented residential properties in the same way as any other business, charging the landowner LVT at a rate of 3 per cent of capital value of the site.

Recommendation Four. Charge owners of more than one house for private use, derelict land, land banks and large country estates, LVT at a rate of 3 per cent of capital value.

Recommendation Five. Agricultural land to be valued, and taxed at the same rate of 3 per cent of capital value as for other businesses.

Recommendation Six. Phase out Section 106 Agreements, the Community Infrastructure Levy, the Stamp Duty Land Tax, and the Annual Tax on Enveloped Dwellings, to be offset by the increasing revenue from the LVT charged to rented

residential properties, and land that is currently untaxed, at the higher rate of 3 per cent of capital value

Recommendation Seven. The rate of LVT to be set nationally, taking into account initially the revenues currently raised by local authorities from Council Tax, and for local authorities to collect the revenues from LVT, with grants from central government, based on population and needs, reduced by the amount of LVT local authorities are able to collect.

Recommendation Eight. For the purposes of implementing LVT, all land to be revalued on at least an annual basis, and once established, on a continuous basis, using the latest methods.