

Report to OVERVIEW AND SCRUTINY BOARD

Land Value Taxation

Portfolio Holder: Cllr Abdul Jabbar MBE, Deputy Leader and Cabinet Member for Finance and Corporate Resources

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Reason for Decision

This report has been prepared in response to the motion entitled 'Land Value Taxation (LVT) considered by Full Council on 28 March 2018.

Executive Summary

Further to the motion considered at Full Council on 28 March 2018, this report explains the history behind LVT and its basis in economic theory along with the advantages and disadvantages associated with this form of taxation.

As the motion considered at Full Council suggested LVT could replace taxation levied through Council Tax and Business Rates, the report also considers the implications for tax administration at the local authority level and highlights some of the issues for the Local Government Finance System that may arise on transition from current forms of local taxation to LVT.

Recommendations

It is recommended that Overview and Scrutiny Board considers the report and provides comment and direction as appropriate.

Land Value Taxation

1. Background

- 1.1. The Land Value Taxation Campaign, defines Land Value Taxation as a method of raising public revenue by means of an annual charge on the rental value of land.
- 1.2. The Council Meeting of 28 March 2018 considered a motion entitled Land Value Taxation (LVT). The motion states that LVT:
 - is typically levied against the unimproved value of land, not taking into account any buildings, services or on-site infrastructure;
 - could be revenue-neutral - the revenue raised could replace taxation levied through Council Tax and Business Rates;
 - would encourage owners of vacant sites, particularly brown-field sites, to develop them for business or residential use more quickly, where planning permission has been granted. This would discourage developers from land-banking and lead to more house building and the creation of more businesses and jobs;
 - is cheap to collect and very difficult to evade.
- 1.3. The motion also states:
 - Some form of LVT is already successfully in operation in over 30 countries (including Australia, Hong Kong, Japan, Singapore and several US states);
 - The International Monetary Fund, the Institute of Economic Affairs and the Organisation of Economic Co-operation and Development have all come out in favour of the tax;
 - A Private Members Bill was introduced in Parliament by Caroline Lucas MP supporting LVT, and the proposal has cross-party support in principle;
 - The Scottish and Welsh Governments are currently investigating the options for implementing such a tax;
 - The Parliamentary Communities and Local Government Committee have just conducted an enquiry into the efficacy of various taxation methods to 'capture' increases in land value;
 - The Government has appointed a panel of experts, chaired by Sir Oliver Letwin, charged with carrying out a review to 'explain the gap between the number of planning permissions being granted (for houses) against those built in areas of high-demand'.
- 1.4. The motion also requested that the Chief Executive writes to:
 - Sir Oliver Letwin as Chair of a Review to 'explain the gap between the number of planning permissions being granted (for houses) against those built in areas of high-demand' outlining the Council's position and asking the panel to give serious consideration to recommending to Government that LVT be introduced as a means to discouraging land-banking and accelerating housing development;
 - The Council's three local Members of Parliament asking for their support for this position.
- 1.5. To support discussion and debate at the Overview and Scrutiny Board, this report explains the history behind LVT and its basis in economic theory along with the advantages and disadvantages associated with this form of taxation. In addition, as the motion suggested LVT could replace taxation levied through Council Tax and Business Rates, the report will consider how the tax might be administered and will highlight some of the issues for the Local Government Finance System that may arise on transition from

current forms of local taxation to LVT. Members are also invited to comment on the motion's request to write to Sir Oliver Letwin and local Members of Parliament.

2. **Current Position**

History of LVT and Basis in Economic Theory

- 2.1. LVT was first popularised by the political economist Henry George during the 19th Century. In his work *Progress and Poverty* (published 1879), George proposes a single tax on land values with land being defined as everything "that is freely supplied by nature". Other classical economists including Adam Smith and David Ricardo are also said to have been advocates of this form of taxation.
- 2.2. Most forms of taxation are said to distort economic decisions and suppress beneficial economic activity. For example, income tax reduces the reward and incentive to work whilst VAT inflates the price of items that are for sale which affects the level of demand for goods and services.
- 2.3. LVT in its purest form would be payable regardless of how well or poorly land is actually used. Advocates of LVT state that the supply of land is essentially fixed and that land rents depend on what tenants are prepared to pay, rather than on landlord expenses. Landlords would be liable for LVT but the nature of the market for land would effectively prevent landlords from passing their LVT liability through to tenants via higher rent. LVT is said to be justified for economic reasons because it does not deter production, distort markets, or otherwise create a loss of economic efficiency.
- 2.4. Advocates of LVT also assert that land derives its value primarily from its location and proximity to other economic activity, infrastructure and services rather than from activity that takes place on the land itself. Those in favour of LVT as a form of taxation suggest it is unfair for land owners to profit (through higher rents) from the economic endeavours of others or from infrastructure and services paid for by other means.
- 2.5. Much has been written about the subject of LVT over many years. A list of hyperlinks to web articles and further reading are included at Appendix One.

Advantages

- 2.6. The Land Value Taxation Campaign lists the following as being advantages for LVT:

A natural source of public revenue - All land makes its full contribution to the Exchequer, allowing reductions in existing taxes on labour and enterprise.

A stronger economy - Taxing labour, buildings or machinery and plant, discourages people from constructive and beneficial activities and penalises enterprise and efficiency. The reverse is the case with a tax on land values, which is payable regardless of whether or how well the land is actually used. It is a payment, based on current market value, for the exclusive occupation of a piece of land. In the longer term, this fundamentally new and different approach to revenue raising will stimulate new business and new employment, reducing the need for costly government welfare.

Marginal areas revitalised - Economic activities are handicapped by distance from the major centres of population. Conventional taxes such as VAT and those on transport fuels cause particular damage to the remoter areas of the country. Land Value Tax, by definition, bears lightly or not at all where land has little or no value, thereby stimulating

economic activity away from the centre - it creates what are in effect tax havens exactly where they are most needed.

A more efficient land market - The necessity to pay the tax obliges landowners to develop vacant and under-used land properly or to make way for others who will.

Less urban sprawl - Land Value Taxation deters speculative land holding. Thus dilapidated inner-city areas are returned to good use, reducing the pressure for building on green-field sites.

Less bureaucracy - The complexities of Income Tax, Inheritance Tax, Capital Gains Tax and VAT are well known. By contrast, Land Value Tax is straightforward. Once the system has settled down, landholders will not be faced with complicated forms and demands for information. Revaluation will become relatively simple.

No avoidance or evasion - Land cannot be hidden, removed to a tax haven or concealed in an electronic data system.

An end to boom-slump cycles - Speculation in land value - frequently misrepresented and disguised as "property" or "asset" speculation - is the root cause of unsustainable booms which result periodically in damaging corrective slumps. Land Value Taxation, fully and properly applied, knocks the speculative element out of land pricing.

Impossible to pass on in higher prices, lower wages or higher rents - Competition makes it impossible for a business producing goods on a valuable site to charge more per item than one producing similar goods on less valuable land - after all, producers and traders at different locations are paying different rents to landlords now, yet like goods generally sell for much the same price and employers pay their workers comparable wages. The tax cannot be passed on to a tenant who is already paying the full market rent.

An established and proven system - Local government variants of Land Value Taxation, known as Site Value Rating, are accepted practice in, for example, Denmark and Australia.

- 2.7. Members should note these are 'claimed' as advantages by the Land Value Taxation Campaign. A significant level of research and investigation would be required to identify and assess the evidence base underpinning these particular claims.

Disadvantages

- 2.8. Most of the publically available literature regarding LVT speaks of advantages but rarely lists any disadvantages. Of the disadvantages claimed, most are associated with practicalities, politics or transition issues. Advocates of LVT tend to argue these are all surmountable challenges that can be 'designed out' of an LVT based system. Below is a list of potential or perceived disadvantages associated with LVT.

The definition of land is unclear – The definition of land might appear obvious but there are in fact a range of definitions that could be applied. In modern economics, the definition of land broadly includes all that nature provides, including minerals, forest products, water and land resources. An alternative definition of land is 'any productive resource with a relatively fixed supply. This can include products of human endeavour such as landing slots at an airport or bandwidth/capacity in a telecommunications network. As is sometimes claimed, the question of which elements of 'land' LVT would apply to is not always clear-cut. Should it apply to all that nature provides (including minerals, forest

products and water) or should it be extended to other products that are relatively fixed in supply?

Measurement of land value is not simple or straightforward – A pure LVT system would tax ‘unimproved land value’. The rationale for this being the tax should not extend to or penalise economic activity taking place on the land itself. Taxing only land value regardless of what that land is used for should incentivise efficient use thus improving economic efficiency. However, it is not clear how one should measure ‘unimproved’ land value. Most valuations for property are drawn from rental and sales data. Rarely is there a separation of land value from the value of other assets included with the site whether that be buildings, natural resources or legal rights to utilise the land in a particular way.

LVT focuses on economic value not social value – A pure LVT system ignores the social value derived from certain types of land use. Parks, green spaces, town squares, monuments and other heritage assets are deemed worthy to retain but are often located in close proximity to some of the highest land and property values in the country. The City of London, for example contains numerous heritage and community assets which would attract a large LVT liability were no such allowance made for this in the design of the system. Similarly, some charitable activities (such as providing shelters for the homeless) may not be able to afford the LVT liability in some areas that they are currently based.

Some landowners are asset rich but income poor – Land itself does not necessarily derive income from which LVT could be paid. Often quoted is the example of older people living in larger homes who may be income poor and thus unable to fund a significantly larger tax bill under an LVT system.

Change will create winners and losers – Assuming LVT is introduced on a revenue neutral basis, moving from one form of taxation to another inevitably creates winners and losers. A pure LVT system could lead to some individuals suddenly becoming liable for a hefty tax liability whilst others could be significantly better off.

Cost of changing existing land use – LVT is said to encourage the efficient use of land. However, often ignored is the fact that changing land use from one form to another will incur cost and disruption which in itself may not be economically efficient.

Administration of LVT (Transition from Council Tax and Business Rates)

- 2.9. Liability for paying LVT rests with the land owner (landlord or freeholder) rather than the tenant. If LVT replaced Council Tax and Business Rates, many aspects of the billing and collection arrangements Councils currently have in place would have to change.
- 2.10. Whilst the annual billing cycle for LVT could mirror the arrangements that are in place for Council Tax and Business Rates, the identity of bill payers could change significantly. Council Tax and Business Rates payers who rent or lease their property would have no liability under a pure LVT system. Instead, the landlord would be liable for LVT and would presumably have to fund the cost from rental income that is collected. Similarly, it's possible that owner occupiers of properties where the land is leasehold may not have an LVT liability. Where land is occupied leasehold, a pure LVT system would place liability with the freeholder. Presumably, there would need to be some means of allowing freeholders to recover the cost of any LVT liability from ground rents or similar charges. Furthermore, the extent of changes in liability may be such that it is necessary to soften the impact through specifically designed transitional arrangements.
- 2.11. As is currently the case for Business Rates, there ideally ought to be a process for regularly updating land values to maintain the integrity of the tax; particularly in a buoyant market. If valuations were fixed (as they have been for Council Tax), it would undermine

many of the claimed advantages for LVT as liability would not change in line with land values.

- 2.12. As previously stated, LVT liability rests with the landlord rather than the occupier or tenant. Property occupiers or tenants are currently liable for Council Tax and Business Rates. One of the key challenges of the current system is keeping track of occupation, calculating liability correctly and the collection of debt; especially in relation to those who no longer occupy a property. LVT should simplify matters in this regard as landlords/freeholders are easier to identify and track via land registry records.
- 2.13. Moving from Council Tax and Business Rates to an LVT system is simpler in the sense that there would only be one form of local taxation rather than two. It would, however, be necessary to radically overhaul local Council Tax Reduction Schemes and possibly associated benefits (e.g. Housing Benefit) paid separately or via Universal Credit. This is to ensure changes in liability are reflected in benefit entitlement. For example, a tenant has no liability under LVT and so would not require an associated benefit payment.
- 2.14. In the design of a new LVT system, decisions would need to be made regarding the myriad of reliefs and discounts currently available to Council Tax and Business Rate payers. For example, should 'single' landowners occupying a residential property continue to receive a 25% discount? Should certain types of land use attract charitable or other types of relief as is currently the case? It should be noted, however, that introducing reliefs and discounts could distort an LVT based system and weaken some of its claimed advantages.

Implications for the Local Government Finance System

- 2.15. As well as significant changes for bill payers, switching from Council Tax and Business Rates to an LVT based system carries significant implications for the financing of local authority activities. In such a scenario, values underpinning LVT would presumably have to be updated. Whilst Business Rates were revalued relatively recently (1 April 2017 based on rateable values as at 1 April 2015), Council Tax values are based on property values as at April 1991. Moving from Council Tax and Business Rates to an LVT based system will most likely lead to significant changes in the ability of individual Councils to raise revenue through LVT.
- 2.16. Using a calculator provided by the Nationwide Building Society, it can be seen that house prices in Greater London have increased by 508% between Q1 1991 and Q2 2018. In the North West of England, the increase is significantly lower at 192% for the same period. Under an LVT based system, Councils in the North West would see their tax base weaken relative to Councils based in Greater London. The local government finance system would need to be rebalanced to ensure more funds are redistributed from London to the regions to take account of changes in the relative ability to raise revenue through local taxation.
- 2.17. Moving to an LVT based system would most likely highlight the major disparity in land values between London and the South East compared to the rest of the country.

Sir Oliver Letwin Review – Tackling Barriers to Building

- 2.18. In January 2018, the Government commissioned a review to understanding why hundreds of thousands of homes haven't been built, despite having planning permission. Originally announced at Autumn Budget, the review, led by Sir Oliver Letwin will look to explain the gap between the number of planning permissions being granted against the amount of housing actually built in areas of high demand. The review will seek to identify the main causes of the gap and will make recommendations on practical steps to increase the speed of build out.

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- 2.19. In March 2018, Sir Oliver provided a preliminary update letter (attached at Appendix Two). Among the numerous points made in the letter, Members will note Sir Oliver states that:

“The fundamental driver of build out rates once detailed planning permission is granted for large sites appears to be the ‘absorption rate’ – the rate at which newly constructed homes can be sold into (or are believed by the house-builder to be able to be sold successfully into) the local market without materially disturbing the market price. The absorption rate of homes sold on the site appears, in turn, to be largely determined at present by the type of home being constructed (when ‘type’ includes size, design, context and tenure) and the pricing of the new homes built. The principal reason why house-builders are in a position to exercise control over these key drivers of sales rates appears to be that there are limited opportunities for rivals to enter large sites and compete for customers by offering different types of homes at different price-points and with different tenures”.

- 2.20. Sir Oliver has not stated (as the Motion states) that LVT would discourage land banking or accelerate housing development.

3. **Options/Alternatives**

- 3.1. Further to the motion approved at Full Council on 28 March 2018, the report aims to explain LVT, its advantages and disadvantages and explore some of the issues that may arise on transition from current forms of local taxation. The report seeks to be impartial and aims to prompt debate and discussion between Members of the Overview and Scrutiny Board. The report does not therefore present a preferred option.

4. **Preferred Option**

- 4.1. Please see paragraph 3.1 (above).

5. **Consultation**

- 5.1. Not applicable as the report is intended for discussion among Overview and Scrutiny Board Members.

6. **Financial Implications**

- 6.1. Moving from current forms of local taxation to an LVT based system would carry major financial implications for bill payers and local authorities alike. Specific implications cannot be quantified at this stage as they would depend on the specific design of any replacement system of taxation coupled with changes to associated welfare/benefits systems and the system for redistributing resources between different local authority areas.

7. **Legal Services Comments**

- 7.1. There are no legal implications arising directly from this report.

8. **Co-operative Agenda**

- 8.1. The report is intended to prompt discussion and debate among Overview and Scrutiny Board Members as required by the motion approved at Full Council on 28 March 2018.

9. **Human Resources Comments**

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- 9.1. There are no HR/People implications arising directly from this report.
10. **Risk Assessments**
- 10.1. Not applicable as the report is for discussion only.
11. **IT Implications**
- 11.1. There are no IT implications arising directly from this report.
12. **Property Implications**
- 12.1. There are no property implications arising directly from this report.
13. **Procurement Implications**
- 13.1. There are no procurement implications arising directly from this report.
14. **Environmental and Health & Safety Implications**
- 14.1. There are no environmental and health & safety implications arising directly from this report.
15. **Equality, community cohesion and crime implications**
- 15.1. There are no equality, community cohesion and crime implications arising directly from this report.
16. **Equality Impact Assessment Completed?**
- 16.1. No.
17. **Key Decision**
- 17.1. No.
18. **Key Decision Reference**
- 18.1. Not Applicable.
19. **Background Papers**
- 19.1. Background papers are included at Appendix One.
20. **Appendices**
- 20.1. Appendix One: LVT – List of hyperlinks to web articles and further reading.
Appendix Two: Review into tackling barriers to building – Preliminary Update Letter

Land Value Taxation - List of hyperlinks to web articles and further reading *

Land Value Taxation Campaign Website	http://www.landvaluetax.org/
Land Value Tax – Wikipedia Entry	https://en.wikipedia.org/wiki/Land_value_tax
HCLC Committee: Land Value Capture Inquiry	https://www.parliament.uk/business/committees/committees-a-z/commons-select/communities-and-local-government-committee/inquiries/parliament-2017/land-value-capture-inquiry-17-19/
Nationwide Building Society House Price Calculator	https://www.nationwide.co.uk/about/house-price-index/house-price-calculator
Labour Land Campaign	www.labourland.org/
Adam Smith Institute 'Blog' regarding LVT (Jun 2017)	https://www.adamsmith.org/blog/why-everybody-is-wrong-about-the-land-value-tax-except-me
Quora – Economic Arguments for and against LVT (Jun 2016)	https://www.quora.com/What-are-economic-not-moral-arguments-for-and-against-Land-Value-Tax
Institute of Economic Affairs 'Blog' regarding LVT (Feb 2016)	https://iea.org.uk/blog/the-case-for-a-land-value-tax-0
Progress article regarding LVT (Dec 2015)	https://www.progress.org/articles/two-undeniable-and-two-weak-arguments-for-a-land-value-tax
Foundation for the Economics of Sustainability - Article (Apr 2012)	www.feasta.org/2012/04/25/unexpected-support-for-land-value-taxes-from-oecd/
IMF Tax Law Design and Drafting – 'Tax on Land and Buildings' (Published 1996)	https://www.imf.org/external/pubs/nft/1998/tlaw/eng/ch9.pdf

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