

# A LAND VALUE TAX FOR SCOTLAND

Fair, Efficient, Sustainable

A report prepared by Andy Wightman  
for the Green MSPs in the Scottish Parliament





# TABLE OF CONTENTS

Preamble	3
Context and history	4
Political and academic interest in LVT	5
What is land?	6
What is land value taxation	7
Land value taxation and public investment	8
Land value tax and other taxes	9
Land value tax: making it happen	10
Land use and land ownership	11
Valuation and use	12
Land value tax: the potential for Scotland	15
Comparison with Council Tax	16
An alternative budget	17
Implications of land value tax	18
The full policy proposal	19
Conclusions and Q&A	20
References	22
Appendix: land value assumptions	23



## PREAMBLE

This report was commissioned by the Scottish Green Party MSPs from Andy Wightman. Its purpose is to develop the case for LVT and to propose a costed, detailed policy on LVT.

The contents of the report do not necessarily reflect the policy of the Scottish Green MSPs, and any mistakes or omissions are the responsibility of the author.

Most of the references cited in this study are available for download at:

[www.andywightman.com/lvt](http://www.andywightman.com/lvt)

Note: there is some disagreement in LVT circles as to whether the term Land Value Taxation should be used since it implies a tax. Many would argue that it is merely the recovery of economic rent. Others prefer the term Site Value Rating.

The use of the term LVT in this report is not to be taken as expressing any preference for one term over another. It should be stressed, however, that the term Land Value Taxation does not imply a tax on land but a tax on land value.

### **The author**

Andy Wightman is a writer, researcher and analyst specialising in land reform, land tenure and land ownership, and is a leading advocate of land reform in Scotland. He is the author of numerous publications including "Who Owns Scotland" (1996), "Scotland: Land and Power" (1999), and "Community Land Rights: A Citizen's Guide" (2009). His forthcoming book "The Poor Had No Lawyers" will be published by Birlinn in October 2010.

He also runs the [www.whoownscotland.org.uk](http://www.whoownscotland.org.uk) project. His current interests include research on burgh commons and other forms of common land, land restitution and community land rights.

# CONTEXT AND HISTORY

Land Value Taxation has been proposed by the Green MSPs as a method of raising local government finance. It is also an idea that has been explored in various recent assessments of taxation policy and which is finding favour among a growing number of academics and policy analysts.

*The landlord who happened to own a plot of land on the outskirts or at the centre of one of our great cities .... sits still and does nothing. Roads are made, streets are made, railway services are improved, electric light turns night into day, electric trams glide swiftly to and fro, water is brought from reservoirs a hundred miles off in the mountains – and all the while the landlord sits still... To not one of these improvements does the land monopolist as a land monopolist contribute, and yet by every one of them the value of his land is sensibly enhanced.*

**Winston Churchill 1909 quoted by Barker (2003) p.116**

Throughout history, land has played an important part in the generation of public revenues and it has only been in the last 100-150 years that it has been supplanted by a range of income and consumption taxes. As McGill and Plimmer point out, as early as 1885:

*Various attempts were made to improve living conditions with Royal Commissions set up to enquire into the causes of the problems and potential remedies. Among them was the Royal Commission on the Housing of the Working Classes set up in 1885. This was the first inquiry to refer specifically to land value taxation (it was then called site value rating) with members concluding that the rating of land values would increase the supply of land available for housing in contrast to the existing rating system which was considered to be an impediment. The commissioners concluded that owners of land suitable for residential development:*

*“... could afford to keep their land out of the market and to part with only small quantities so as to raise the price beyond the natural monopoly price which the land would command by its advantage of position. Meanwhile, the general expenditure of the town on improvements is increasing the value of their property.”*

*These sentiments focus on the justification for LVT. The debate then, as now, is that the value of property is made up, in economic terms, of two distinct factors of production, namely, land (the natural resource) and capital (man-made improvements to it such as buildings) and that taxing one rather than the other could have very different results for society. As the Royal Commission (and many others) have recognised, the land element of value is created by the community whereas the capital element is created by the landowner. The justification for LVT is that the tax ought to be based on the land element so that the community recoups what it has created.*

**McGill & Plimmer, 2004**

Lloyd George's famous Finance Bill of 1909 contained provisions for a land tax which, although later repealed, resulted in a complete survey of landownership and land values in Britain and Ireland.

The Utthwat Report of 1942 recommended betterment taxes as a means of financing the planning system and throughout the post-war period there were attempts to extract the windfall gains rising as a consequence of planning approval (see Figure 1).

Tax	Levy	Years
Development Land tax	100% of the uplift in land value due to the granting of planning permission.	1947-1953
Betterment Levy	40%, due to rise through time to encourage early sale, again designed to capture value uplift. Capital Gains Tax was also introduced in 1967 to capture increases in the existing use value of land only.	1967-1971
Development Gains tax	An interim tax on the capital gains derived from the disposal of land and buildings with development potential.	1974
Development Land Tax	Taxed development gain - i.e. the difference between the net proceeds after disposal of development and either the current use value of land or the cost of land acquisition (whichever was higher).	1976-1985

**Figure 1. Past UK examples of land taxation. Source: Maxwell & Vigor, 2005 adapted from Connellan and Lichfield (2000)**

The history of LVT in Britain is reviewed by Owen Connellan (Connellan, 2004). The most recent example of the principle is the Planning Gain Supplement proposed by Kate Barker in her Review of Housing Supply (Barker, 2004). LVT was also considered by both the Lyons Review (Lyons, 2007) and the Burt Review (Burt, 2006) into local government finance.

## Local Reviews

Meanwhile at a local level, two important pilot studies have been carried out. The first was by Oxfordshire County Council (Oxfordshire County Council, 2005) and the second in 2009 by Glasgow City Council (Glasgow City Council, 2009a, 2009b). The latter study examined both LVT (a levy on land values) and a combined land and property tax, and considered how they would operate in Ward 18, covering Haghill and Dennistoun.

# POLITICAL AND ACADEMIC INTEREST IN LAND VALUE TAX

Land Value Tax has attracted support from across the political spectrum for many years. In particular, the Liberals, the Greens, the Co-operative Party and elements of the Labour Party (Labour Land Campaign) have long campaigned for the introduction of LVT. The Co-operative Party adopted LVT as part of its manifesto for the 2010 UK General Election.

*There is significant evidence to suggest that the shortage of homes in the UK has been artificially created by a poorly functioning property market. This has had the effect of substantial growth in house prices, with the market rewarding those with property assets at the expense of people seeking places to live.*

*In order to prevent similar problems emerging in the upturn, the Government should use taxation to change incentives within the property market, ensuring that it incentivises the productive use of land rather than expected capital gains in an upward market. The Government should replace council tax and national non-domestic rates with a land value tax.*

**Co-operative Party, 2009**

In addition to this party political support, there is increasing interest in the idea from policy makers, academics and think tanks. Compass recently published a pamphlet on the housing crisis in which the author concluded that:

*Social justice demands that the gains in land value be shared more equitably with the community than at present, and a tax system that could stabilise the housing market and reduce the chances of booms and busts is in everyone's interest. Possibly, the most effective fiscal policy means of achieving this would be to replace the unpopular and regressive council tax and the system of business rates with an annual land value tax (LVT). All land would face an annual charge for the benefits received as a consequence of being a landowner on the basis of the unimproved site value of the land, which would be revalued for tax purposes annually. This could be structured so that it eventually provided a similar level of overall public revenue to council tax and business rates (currently £25.6 billion and £19.6 billion respectively). It is important to be clear here – we are not talking about a tax on property values. If people improve or develop their home then the benefits would still accrue to them. We are just talking about the value of the land their home sits on, which is therefore the most public and social asset there can be.*

**Lloyd, 2009**

The Bow Group published a pamphlet by Mark Wadsworth advocating LVT as a replacement tax whilst scrapping Council Tax, Stamp Duty Land Tax, Capital Gains Tax on disposals of land and buildings, Inheritance Tax and the TV licence fee. (Wadsworth, 2006).

In academic circles, LVT is undergoing something of a renaissance too. As Iain McLean, Professor of Politics at Oxford University, comments in a recent IPPR paper:

*The present tax regime suppresses economic activity (S.106 agreements) and encourages bubbles (Council Tax). Land tax could yield more while costing less. Policymakers have an opportunity to implement Tom Paine's dream. Which is also the dream of David Ricardo, Henry George, and Lloyd George. What better way than that could there be to mark the centenary of the People's Budget in 2009?*

**McLean, 2005**

John Muellbauer, Professor of Economics at Oxford University argued in the same volume that:

*The tax falls ultimately upon ownership, and not on development nor on business activity. It captures part of the benefits accruing to land owners from public investment or the private investment of others. It thus underwrites the funding of public investment, since the rise in land values that a worthwhile project engenders will automatically generate a rise in tax revenue to fund the project. This should encourage better public investment decisions not only regarding individual projects, but the scale of such investment.*

**Muellbauer, 2005**

Even the Governor of the Bank of England, Mervyn King, in the standard textbook on the British tax system is persuaded:

*The underlying intellectual argument for seeking to tax economic rents retains its force.*

**Kay & King, 1990 p.179**

In December 2009, Adam Posen, an external member of the Monetary Policy Committee of the Bank of England has recently advocated property taxes as a tool for dampening asset bubbles.

*So what could be done to limit or pre-empt real estate price booms? We should think in terms of automatic stabilisers - not least because economies that have had deeper automatic stabilisers have done better in responding to the crisis without increasing structural deficits, since they are contractionary during booms. We also should think in terms of automatic stabilisers because that means a rule rather than discretion, and thus would be more credible in deterring unrealistic price movements by home owners and speculators.*

**Posen, 1990**

Continuing international interest is also evident in Denmark (Muller, 2000), New Zealand (New Zealand Treasury, 2009; Coleman & Grimes, 2009) and Ireland (Reynolds & Healy, 2004).

# WHAT IS LAND?

Before defining what is meant by land value taxation, it is vital to understand what land is and what land value is, however obvious this may seem.

Land is the surface of the earth. Much of it is covered by sea and dry land is used for a variety of purposes from agriculture, forestry and conservation to industry, mining, housing and recreation. Land value is the monetary value of land expressed either as a capital value or an annualised economic rent.

In the context of LVT, it is important to stress that land value is the value *only* of the land and *not* of all the improvements made to it. These improvements include the construction of buildings, infrastructure, crops and drainage.

Thus, taking a familiar example of a house, the value of the house as determined by the price one would pay on the open market is in fact made up of two elements. The first is the value of the building itself and the second is the value of the land (including any garden) that the house sits on.

The value of the building will be determined by the quality of the construction, the size of the rooms, and the specification of the interior fittings. The value of the land is a function of its location and the use to which the land may be put according to planning law.

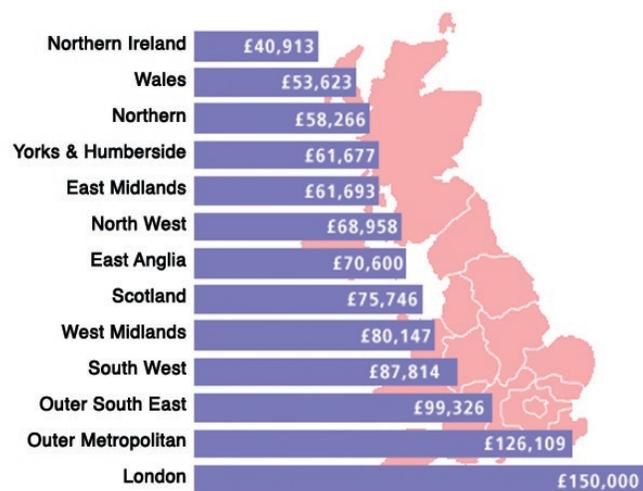


Let us assume that the house pictured is worth £150,000. What is the value of the land and what is the value of the improvements?

One way of determining this would be to knock the house down and put the site on the market with planning permission for a house of the size and style of what is currently there. The price paid would be the land value.

Another way is to assess the house for building insurance purposes. This is a routine process and the value of assessment will reflect the reconstruction costs. Deducting this assessment from the current market value will give the land value.

In practice, the valuation of land is a professional judgement based upon a range of information including the market value of land and buildings in a neighbourhood, assessments of reconstruction costs and extant planning permissions. Baseline residential land values are regularly published by the Valuation Office Agency (VOA). In percentage terms the value of land can vary from between 30% and 80% of the total purchase price of a property depending on locality.



This variety is illustrated by the chart above which illustrates the price of an identical house in identical neighbourhoods in different parts of the UK. The difference in price is the difference in land value. Assuming that such a house is valued at around £35,000 for insurance purposes, one can see that land values for an identical house range from 15% in Northern Ireland to over 75% in London.<sup>1</sup>

Land values can thus be thought of in two ways. The first is to think of them as a proportion of the open market value of the property as a whole as in the examples given above. The second is to think of them in absolute terms since we know, for example, the value of residential, industrial and agricultural land from data collected by the Valuation Office.<sup>2</sup>

One other factor needs to be taken into account in assessing land values and that is the permitted use of the land. Sites with planning consent for residential housing will be worth much more than sites used for agriculture. Thus on a local scale, account needs to be taken of the highest and best use (HABU) of a site, that being the use upon which valuation should be based.

<sup>1</sup> Chart from [www.nationwide.co.uk/hpi/value\\_added.htm](http://www.nationwide.co.uk/hpi/value_added.htm)

<sup>2</sup> See Valuation Office Property Reports at [www.voa.gov.uk/publications/](http://www.voa.gov.uk/publications/)

# WHAT IS LAND VALUE TAXATION?

*The Campaign argues for an annual ad valorem tax on the annual rental value of land, based on its optimum permitted use. The valuation is a market valuation and excludes buildings and any other development. All land is subject to the tax, including vacant sites and agricultural land.*

## **Land Value Taxation Campaign**

Land value tax is a levy collected by government (local or national) on the value of land *and land alone*. No account is taken of capital improvements such as buildings, drainage or fixtures of any kind. The levy is set as a percentage of either the capital value of the land (for a house worth £150,000, this might be around £100,000) or the rental value of the land. The rental value of land is simply the annualised capital value derived by multiplying the capital value by the prevailing discount rate (being the cost of capital or the return expected from the investment of capital). A discount rate of 10% applied to the above example will result in an annual rental value of £10,000.

**LVT levy of 5% of the capital value of such land = £5000**

**LVT levy of 50% of the rental value (£10,000) = £5000**

It is important to note that levying LVT at 100% of the rental value of land is equivalent to removing this value entirely from the hands of the owner. As the LVT Campaign put it:

*Collecting the rental value of land as close as is possible to the theoretical maximum 100%, leaves bare land with practically no selling value, since the capitalisation of a theoretically 0% rental stream which the landholder can retain, is zero. Land is worth holding only for use, and for good use to boot. Speculation in land is killed stone dead.*

## **Rationale**

The idea of levying a charge on land values has a long history in economic theory and politics.

The philosophy behind LVT is based on the idea that land in its unimproved state is a gift of nature and, unlike capital and labour, has no cost of production. Furthermore, since land is fixed in supply (again unlike capital and labour), its value is purely a scarcity value reflecting the competing needs of the community for work, leisure and housing.

Thus land value (excluding the value of investment in improvements) owes nothing to the owner or to individual effort and everything to the community at large. Thus the value of land properly belongs to the community.

As Nicolaus Tideman argues:

*The justice of collecting the rent of land can be generalized to the justice of collecting a fee for any privilege that governments grant to some individuals and not others. The value of the special privilege for a few that is entailed in planning permission would be recouped automatically in collecting the rental value of land. A version of social collection of the value of privilege occurs in the present government's auctioning of ten-year broadcast licenses. For the same reason that people are justly required to pay for broadcast licenses:*

- » *individuals who have the exclusive use of desirable number plates should pay annually for that privilege;*
- » *airline companies with exclusive landing rights should pay annually what other airlines would be willing to pay for such rights; and*
- » *people who have fishing rights that are denied to others should pay annually according to the value of those rights.*

*The general principle involved in all of these examples is that whenever a government grants a right to some and not to others, those who are granted such rights should pay annually, to the government, the value of those rights, measured by what others who do not have them would be willing to pay to have them.*

*Private appropriation of rent and other privileges makes it necessary for governments to look elsewhere for revenue, with the consequence that even persons with very low incomes are required to turn over part of what little they earn to the state. In justice we ought to allow everyone, but especially those whose earnings are lowest, to allocate what they produce as they themselves choose.*

**Tideman, 2009**

The concept becomes very clear when one looks at the input of public investment and the allocation by the community of planning permissions, both of which bestow an uplift in value on the land. Land value taxation is the process by which ongoing rental value together with periodic uplifts in value are returned to the community to finance public expenditure.

## **Central Park, New York**

A classic example of what is now known as the proximate principle was the proposal by the famous American landscape architect, Frederick Law Olmsted, setting out how the development of New York's Central Park should be financed.

He argued that land and property in the vicinity of the park would increase in value as a consequence of the construction of Central Park. The tax take from property taxes would therefore rise and be more than sufficient to pay for the development costs of the park and its future maintenance.

# LAND VALUE TAXATION AND PUBLIC INVESTMENT

Olmsted's subsequent analysis proved this to be correct. Prior to the park's establishment, the three wards adjacent to the park had contributed 7.5% of New York's city budget and after its development the same properties contributed fully 33% even although acquiring the land for Central Park removed 10,000 lots from the City's tax roll. Such successful public investment led to growing calls from across the urban USA for the development of parks and today there are renewed calls for this method of finance to be used to fund public open space (Crompton, 2000).

## Railways

The idea of financing development from the revenues accruing from rising land values was the precise mechanism used by the private developers of Britain's railways. A private Act of Parliament conferred authority on a joint stock company to acquire land and construct and operate a railway. Investors bought shares and the rising land values adjacent to the railway together with income from passengers and goods financed the ongoing operation of the railway.



Fig 4. The Impact of High Speed 1. Source: Land and Liberty, Vol 116. No 1224 2009. Derived from Table A 10 in Buchanan, 2009.

# LAND VALUE TAXATION AND OTHER TAXES

To this day, buildings such as the former North British Hotel in Edinburgh stand as testimony to the value created as a consequence. Japan today still uses such an approach, as do Special Assessment Districts in the USA.

Today, however, the empirical relationship between land values and development has been forgotten. This is evident in the ways in which public infrastructure is being financed today through debt-based capital expenditure by government. A good and oft-cited example is the Jubilee Line extension (JLE) to the London Underground.

A well-known study by property developer, Don Riley, Taken for a Ride, found that the £3.5 billion invested in the JLE by taxpayers had resulted in a £13.5 billion increase in land values along the route. A more nuanced and rigorous study by Mitchell and Vickers (2003) calculated a figure of £9.75 billion.

Either way, the financial benefits arising from the construction of the new line were around three times the cost of construction. This represents a direct transfer of wealth from the taxpayer to private landowners and is a strange way to finance public infrastructure.

Figure 4 to the left illustrates the results of research by Colin Buchanan and Volterra Consulting on the impact of the new High Speed 1 railway. The report concluded that the value of housing stock (in reality the value of land) may increase by around £1.3 billion, “representing a capitalised value of HS1 benefits to current residents”, or more accurately landowners.

## Alternative funding model

A method in place for much of the 19th century, whereby public works were financed by the principal beneficiaries, has now been replaced by a method whereby taxes paid by individuals and companies on their earnings and VAT, and other taxes paid out of after tax income on consumption, are used to finance a capital project which delivers up to three times the value to private landowners. No wonder the Scottish Government finds it difficult to find the capital to build schools and bridges.

In this way, a good deal of existing or proposed public investment which is causing so much political difficulty (Borders Railway and GARL, etc) could be financed at least in part by recovering the financial benefits that flow to landowners by way of increased land values. Indeed, even existing initiatives such as the Cairngorms National Park could potentially meet a significant portion of their running costs from the enhanced land values that property owners enjoy due to National Park status.

This is particularly relevant given that the Scottish Government’s capital budget is likely to see a tougher squeeze than revenue

budgets: the Independent Budget Review suggested a 28% capital cut by 2014-15, as against an overall reduction of 12.5%.<sup>3</sup>

The rationale is thus that it is fair that the principal source of public revenue should come from unearned windfalls and from the land values generated by the efforts and demands of the community.

Taxes on hard work (income), investment (capital gains) and consumption (from post tax income) should be relegated to the bottom of the list of revenue sources when such a substantial revenue can instead be obtained by returning to the community the value it creates through public infrastructure, development permissions and rising land values.

## LVT and other taxes

LVT represents a new tax but not necessarily an additional tax. Implementation of LVT can result in a **tax shift**: that is to say the overall impact would be revenue neutral - the revenue raised by LVT being balanced by reductions in other forms of tax.

Such a **shift** would be designed to benefit the economy by stimulating the things we want (employment, public and private investment, efficiency in land allocation and affordable housing) and penalise and discourage the things we don’t (idle land, land speculation, asset bubbles and poor infrastructure).

In addition, LVT will tend to make the retention of unused land unprofitable, and so reduce the influence of asset bubbles and speculative transactions. This should contribute to preventing the kind of boom and bust that has long characterised the land market.

## LVT versus other land taxes

Other attempts at capturing uplift in land values or betterment including the 1947 Development Charge, the 1967 Betterment Levy, the 1976 Development Land Tax, and the Barker Review’s proposed “planning gain supplement” are all flawed for one simple reason.

They attempt to capture land values only from some sites at specific one-off points in time (upon development, sale etc.). Thus they are easily avoided by manipulating the land market or by simply withholding land from use (contrary to the intentions behind the levies) whilst enjoying the ongoing capital appreciation. In addition such taxes are invariably complicated and costly to implement.

LVT retains a proportion of land value for the community on an ongoing basis, reflecting both existing values and any rise or fall. It is thus immune to the kind of manipulation that afflict levies based on events.

<sup>3</sup> See p27, <http://www.scotland.gov.uk/Resource/Doc/919/0102410.pdf>

# LAND VALUE TAXATION: MAKING IT HAPPEN

The potential of LVT is equal to the total rental value of Scotland (excluding improvements). In order to calculate this, we need to know:

- » the extent and location of all land use;
- » the extent and location of all landholding parcels (land ownership),
- » the highest and best use for all land, and
- » the value of every land parcel in the country

## Land use

The biggest single problem in moving to LVT and in assessing its potential is the lack of any accurate, location based statistics on land use. How much residential land is there, how many acres of retail

land, of vacant land and of agriculture? And where exactly is it? Without knowing this it is impossible to value the land and assess the rate of LVT to achieve a given yield.

Scotland has no land use database - no map which delineates the extent and location of industrial, recreational, residential, agricultural and other land uses at a useful scale. In contrast, a Generalised Land Use Database (GLUD) for England has been prepared as illustrated below in Figure 5. The Scottish Government is still at the stage of securing funding to produce an equivalent dataset for Scotland.

Recently, a private company, GeoInformation Group ([www.citiesrevealed.com](http://www.citiesrevealed.com)) has provided a detailed land use dataset for much of Glasgow and Perth and Kinross. In response to a Freedom of



## Large scale Generalised Land Use Database maps based on OS Master Map(r)

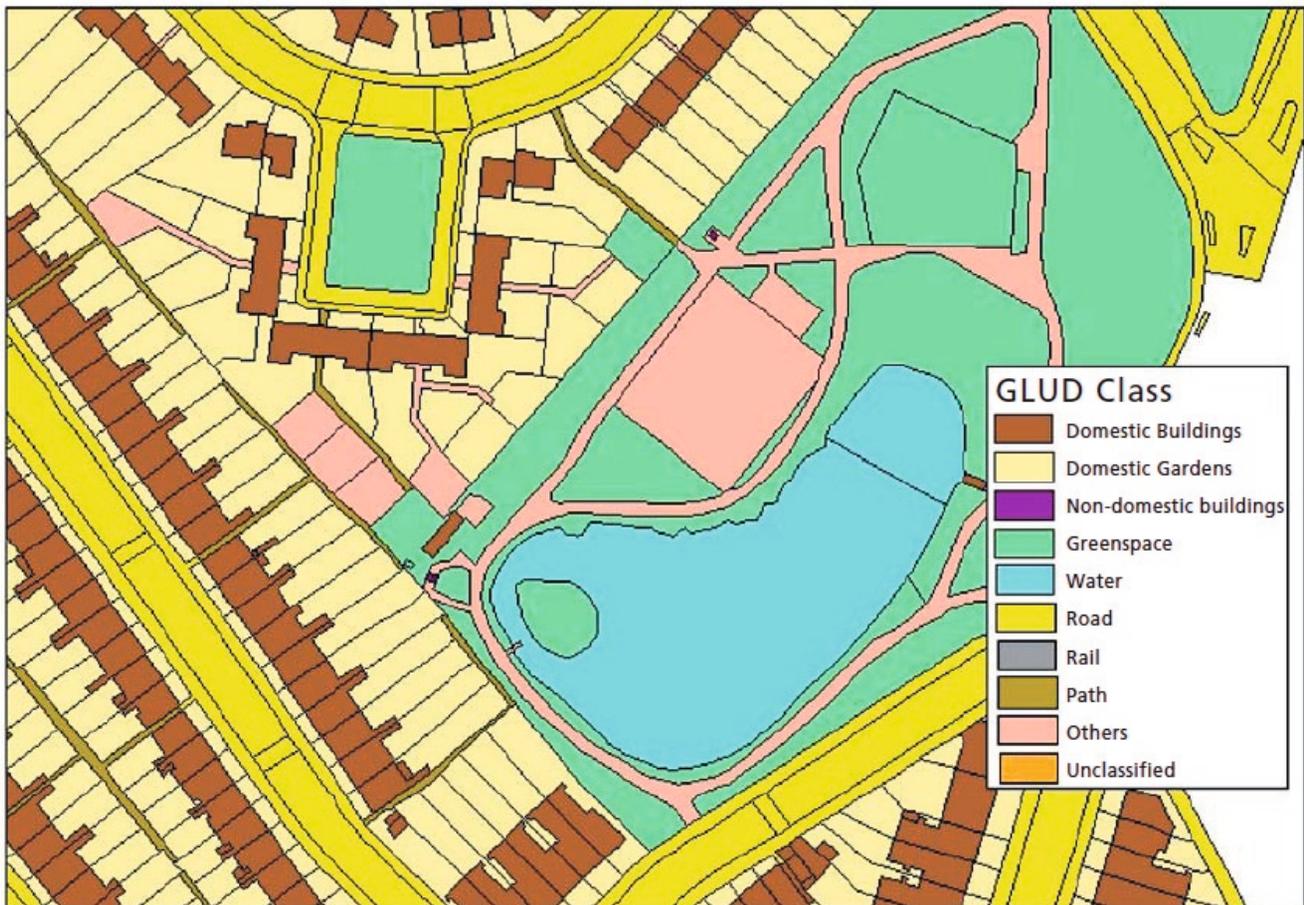


Figure 5. Extract from Generalised Land Use Database for England 2005 (GLUD, 2005)

# LAND USE AND LAND OWNERSHIP

Information request, however, SNH refused to supply this data as it is owned by the GeoInformation Group.

The GLUD and the GeoInformation data contains details of individual parcels categorised according to one of a number of agreed land uses.

## Land ownership

With a map of land use in place, the next stage is to superimpose on top of this a map showing the landholding parcels - who owns what parcels of land. The current business rates and council tax are collected on the basis of a valuation roll and council tax which are both based on a database of addresses. This will need to change.

There is not yet a complete map-based register of landholding parcels across Scotland. Since 1981, the Land Registration (Scotland) Act 1979 has been progressively rolled out across Scotland with properties being added as and when they are sold. It provides a state-guaranteed title together with a computer generated map for every property.

Since 1 April 2003, all property transactions in Scotland are now recorded in the Land Register but property that has not changed ownership remains in the older Register of Sasines, which is not map based.

Figure 6 shows the progress of land registration with the first county to be made operational (Renfrew) now having 76.73% of all titles

	Introduction	Weeks elapsed	% titles	Weeks to 100%	Completion Date
Aberdeen	1 Apr 1996	682	55.8%	540	5 Sep 2019
Angus	1 Apr 1999	526	38.7%	835	28 Apr 2025
Argyll	1 Apr 2000	474	46.8%	539	28 Aug 2019
Ayr	1 Apr 1997	630	47.8%	688	5 Jul 2022
Banff	1 Apr 2003	317	28.6%	791	26 Jun 2024
Berwick	1 Oct 1999	500	42.8%	667	11 Feb 2022
Bute	1 Apr 2000	474	49.7%	480	9 Jul 2018
Caithness	1 Apr 2003	317	28.6%	790	21 Jun 2024
Clackmannan	1 Oct 1992	865	53.8%	744	3 Aug 2023
Dumbarton	4 Oct 1982	1386	75.7%	446	16 Nov 2017
Dumfries	1 Apr 1997	630	44.6%	782	24 Apr 2024
East Lothian	1 Oct 1999	500	45.2%	606	10 Dec 2020
Fife	1 Jan 1995	748	51.8%	696	29 Aug 2022
Glasgow	30 Sep 1985	1230	61.4%	774	25 Feb 2024
Inverness	1 Apr 2002	369	38.7%	586	22 Jul 2020
Kincardine	1 Apr 1996	682	54.5%	569	27 Mar 2020
Kinross	1 Apr 1999	526	51.6%	492	6 Oct 2018
Kirkcudbright	1 Apr 1997	630	52.4%	572	15 Apr 2020
Lanark	3 Jan 1984	1321	71.2%	533	19 Jul 2019
Midlothian	1 Apr 2001	422	39.2%	655	15 Nov 2021
Moray	1 Apr 2003	317	28.6%	792	4 Jul 2024
Nairn	1 Apr 2002	369	39.4%	567	15 Mar 2020
Orkney & Zetland	1 Apr 2003	317	28.3%	803	16 Sep 2024
Peebles	1 Oct 1999	500	46.8%	568	22 Mar 2020
Perth	1 Apr 1999	526	46.3%	609	31 Dec 2020
Renfrew	6 Apr 1981	1464	76.7%	444	2 Nov 2017
Ross & Cromarty	1 Apr 2003	317	27.9%	818	1 Jan 2025
Roxburgh	1 Oct 1999	500	39.7%	759	15 Nov 2023
Selkirk	1 Oct 1999	500	40.3%	740	7 Jul 2023
Stirling	1 Apr 1993	839	57.4%	622	3 Apr 2021
Sutherland	1 Apr 2003	317	28.5%	794	21 Jul 2024
West Lothian	1 Oct 1993	813	61.6%	506	9 Jan 2019
Wigtown	1 Apr 1997	630	46.5%	725	22 Mar 2023

Figure 6. Progress of Land Registration in Scotland as at 30 April 2009.

# VALUATION AND USE

registered. If the rate of progress since 1981 is maintained (and it will fall off at some point close to 100% completion), all titles in Renfrew will be completed in November 2017. Over Scotland as a whole, at the existing rate of progress, the vast majority of titles will be complete at some point between 2020 and 2030.

## Highest And Best Use

Having mapped land use categories and identified ownership, the final stage before valuation is to determine the highest and best use (HABU) for each parcel.

The interaction between LVT and the planning system is vital, since the essence of LVT is that owners are expected to pay a levy based on the HABU of the land.

British planning is characterised by a plan-led system, where Structure Plans and Local Plans set the context for a process of detailed development control within which individual applications are assessed and determined as and when they are made, leading to the granting of specific consents for specified developments.

This is in contrast to the system in countries such as the US, where a detailed system of zoning clearly delineates the permitted use in any one area and which, in effect, conveys development rights to the landowner who is free to develop land within such zoned uses without the need for detailed permission. In such a system the assessment of HABU is much clearer and more straightforward.

In the UK, development rights are public goods and granted in an ad hoc fashion in response to planning applications. Whilst structure plans may show areas where it is agreed that certain types of development will be permitted, it is only when a detailed proposal for planning consent is submitted that any development can be approved.

Three problems to be overcome in integrating a system of LVT with the planning system are as follows:

- » Defining HABU
- » Dealing with hope value
- » Planning permissions can be sought by anyone.

## Defining HABU

With regard to HABU, the simplest way to assess this is to base it on authorised consents specific to the site. Thus if a parcel of land has planning permission for a particular change of use then the value of the land should (and will) reflect that new use which will, by definition, be the HABU. The HABU is not the use that might be

expected to be permitted - the kind of belief that leads to hope value - it is the use that is specifically permitted on any given parcel of land.

It is important for the credibility of LVT that no-one is expected to pay a levy based upon a value that cannot be realised as of the date of the valuation.

Some authorities have suggested that, in the absence of a specific authorised consent, there could be Certificate of Permitted Use which details the HABU for any given site. This, however, would involve a significant change in the way the planning system operates. The challenges of LVT are big enough without having to amend the planning Acts. Thus, the introduction of LVT should be designed to sit within the system of planning that currently exists.

It is worth remembering that for the majority of sites, the HABU is in fact the existing use. Assessments of HABU are thus no more than confirmation of existing use over most land and only becomes an issue on sites where this is not the case and these will be in the minority.

## Dealing with hope value

Hope value reflects a calculated risk taken by a purchaser that a change of use will be granted at some point in the future which will lead to an uplift in land value. Some advocates of LVT suggest that hope value should not form part of any LVT assessment.

This is because it is unfair to one landowner who, for example, merely wishes to continue to farm his or her land to expect them to pay an inflated levy purely because of the hope value attributed to some neighbouring parcel of land.

Thus in the first instance, hope value should not be a material consideration in any assessment for LVT which should be based upon specific authorised consent for change of use (in contrast to some hoped for change of use in the future).

However, because land values are based upon market values of land, hope value will be factored into any assessment of land value. Any purchaser of land pays a price for that land which immediately becomes the basis of LVT assessment. Thus if a purchaser acquires land at a price that clearly incorporates hope value, he or she will be exposing themselves to an LVT levy based upon that value.

Our neighbouring farmer, meantime, bought his or her land as a farm some years ago and it should continue to be valued at farmland prices unless and until it is sold or given planning permission for a higher and better use. Thus there may exist very different land values side by side over land in the same HABU as a consequence of market

forces. The realisation of this fact will, in itself, go some way towards dampening speculative land deals.

## Planning permissions can be sought by anyone

It is often forgotten that anyone can apply for planning permission for change of use over any land. Applications are not restricted to the landowner and, indeed, the landowner may not approve of the proposed change of use (witness the recent permissions granted over land in the vicinity of Menie Estate upon application by Donald Trump, land owned by local residents who have explicitly said they will not sell).

Under a system of LVT, local authorities may be encouraged to prepare and submit planning applications for land they believe has a higher and better use in order to derive increased LVT levies. Private interest may do the same for land they wish to see released for development.

In principle there is no objection to this, since the planning system is a public system of land use planning but there is potential for abuse. Increased democratic accountability and transparency in the planning system would be beneficial for this purpose, as would an equalisation of developers' and communities' rights to appeal.

## Valuation

Apart from industrial and commercial land, there is no up to date valuation of land in Scotland. Council tax is based upon a categorisation of domestic properties into one of 9 valuation bands defined by reference to value in 1991. Business rates are based on valuations of property (land and improvements) carried out every 5 years.

A comprehensive valuation of all land in Scotland would be required. This is technically straightforward even taking into account the relative unfamiliarity of valuing land separately from improvements.

Valuers in Scotland have no difficulty in general in valuing land and property for a range of purposes. The only difference between current valuations carried out for capital gains tax, business rates or compensation appeals is that they are normally of the whole property (i.e. land and buildings together). All that needs done to value land alone is to adopt the familiar Residual method based upon the following process:

**valuation of the property** (market price of land and buildings)  
less **depreciated replacement costs of the buildings**  
equals **land value**.

Valuations can be carried out on groups of properties of similar characteristics to arrive at land values based upon available sales data. To simplify things further, an allocation can be made which represents the ratio of land value to property (land + buildings) to arrive at a percentage. Such allocations can be determined for specific categories of property with similar characteristics in specific locations.

Land values are determined by assessing the land and capital improvements separately and *on the basis of market values*. This can be done in a variety of ways. One is the method of residual valuation mentioned previously whereby the overall value is reduced by the value of the improvements. Typically, the price of a house exceeds its replacement costs (i.e. the costs of rebuilding). The difference is the value of the land.

Market data can also be used to determine the value of unimproved land in any use category. With categories of land such as residential and retail property, land values will vary little from one parcel to the next and a process known as Computer Aided Mass Appraisal (CAMA) can be used to derive land values over large uniform areas. Where uniformity breaks down, individual valuations will be required and if these are disputed, appeals should be allowed. One additional mechanism that might be considered is self-assessment, whereby an owner makes their own declaration of land value on condition that this be the price at which any compulsory purchase be set at.

Valuing land alone is considerably easier than valuing land and buildings together since the only factors to be taken into account are the location of the land and the HABU. No account need be taken of all the myriad of factors involved in the valuation of capital improvements such as buildings which involves inspection and assessment of their state of repair.

Land valuation is often claimed to be a dark art, but in fact it is already routinely done around the world in countries such as Denmark. All over the world, valuers routinely value land in order to collect land taxes.

In the UK, separating out the building component from the land is the basis of insurance valuations for houses and other buildings. Buildings can collapse or burn down but the land rarely disappears (except in isolated incidents such as coastal erosion or open cast mining). Thus the insurance premiums for buildings and people's homes cover only the costs of reconstruction. In many cases this is, of course, more than the value of the building in its current condition but standard depreciation factors can be used to account for this. See <http://calculator.bcis.co.uk/>

Indeed, in the UK, the valuation of land is already done. Under the Capital Allowances Act 1990, capital allowances for tax purposes

often require that buildings and other improvements are valued separately from the land.

Pilot studies in Oxfordshire and Glasgow have concluded that there are no insurmountable barriers to the adoption of LVT in the UK.

*The trial proved relatively easy to undertake from a practical point of view. The apparent lack of any obstacles to the professional assembling of the raw data is extremely encouraging.* (Oxford p.17)

*Valuations based on the undeveloped value of the land present no special problems to a professional valuer.* (Oxford p.2)



As an example of valuation, the picture above shows two neighbouring houses built on plots of equal size. For this area (of Edinburgh) there will be a general residential land valuation based on the location.

However, this needs to be modified where the HABU differs between one plot and another. In this case, the HABU is existing use which, for the house on the left is a 3 storey terraced house and, on the right, a 2 storey terraced house.

Are the land values different? That will be answered with reference to market values as Figure 7 below shows.

	Property on left	Property on right
A: Property's market value	£450,000	£370,000
B: Value of building	£230,000	£190,000
C: Land value (A-B)	£220,000	£180,000
Land value %	48.9%	48.6%

Figure 7. Land value versus property value.

The land value therefore is higher for the left hand house because, despite the land area being identical, the HABU (being the current use in the absence of any other specific planning consent) is for a larger house over 3 storeys. The land is therefore more valuable.

In the example above, a buyer will pay for tangible capital in the form of stone, mortar and fixtures (and thus the owner will be rewarded for their investment) but will not pay for the land value to the extent to which it is subject to LVT. Obviously a very low rate of LVT will result in continuing capitalisation effects but as LVT rates rise (to the level of 100% of annual rental value) and becomes embedded within the economic framework, the distinction between land value and improvements will become clearer.

This observation highlights the fact that over time, the levying of LVT will reduce land values. As the New Zealand Treasury paper states (values changed to £):

*While a land tax would cause the value of land to fall, that fall in value should be by the exact amount of the net present value of the future tax liability. This can be seen in the following simplified model. The model assumes a 10% interest rate, no income tax, no inflation and no growth in land values.*

*Assume that a land tax liability of £1000 per year is levied on a piece of land. At a 10% interest rate, a sum of £10,000 would need to be invested to generate £1000 per year. The net present value of the land tax liability is therefore £10,000. The value of this piece of land will fall in value by £10,000. This loss is borne entirely by the current owner, who will also have to pay the land tax liability for as long as they hold the land.*

*A future purchaser will pay £10,000 less for the land than they would have paid before the introduction of the land tax. However, they will face a future liability of £1000 per year. Their economic position is the same as it would have been in the absence of a land tax, although the timing of their payments has changed.*

**New Zealand Treasury, 2009**

## Conclusions

It is worth reflecting that in 1910 the Inland Revenue surveyed, mapped and valued the land and improvements value of every hereditament in Britain and Ireland as part of the preparations to implement Lloyd George's "People's Budget". The land tax provisions were repealed but the maps still exist together with the data.

If the Edwardians can manage to survey the ownership and value of all land in Britain and Ireland with paper and ink, there is no reason why modern aerial imagery, computerised mapping and GIS technology cannot do the same one hundred years later.

# LAND VALUE TAXATION: THE POTENTIAL FOR SCOTLAND

Using a variety of published data, it is possible to construct an approximate breakdown of land use in Scotland together with data on land values (excluding improvements). This chapter reveals the potential of LVT in Scotland, where it would come from and how it impacts on existing property owners.

Figure 9 shows that, from a position today where Council Tax yields 50% of total local taxation and business rates the other 50% (total of £3.8 billion) we would move to a situation where all land uses pay a total of £3.8 billion.

	Hectares	Land value/hectare	Total land value
Agriculture	4438000	£4,094	£18,169,172,000
Sporting Estates	1799783	£100	£179,978,300
Forestry	1342000	£1,000	£1,342,000,000
Derelict Land	8203	£0	£0
Urban Vacant Land	2630	£625,000	£1,643,750,000
Residential	51111	£1,500,000	£76,666,500,000
Industrial	20750	£250,000	£5,187,500,000
Business & Retail	17121	£1,000,000	£17,121,000,000
Infrastructure	78121	£0	£0
Urban Open Space	54409	£0	£0
Land Area (excl. water)	7812128	£15,400 (average)	£120,309,900,300

Figure 8. Land use and land value. Sources: See appendix.

Figure 8 shows that the total land value of Scotland is of the order of £120 billion. The current yield from Council Tax and Uniform Business Rate is £3.8 billion (£1.9 billion from Council Tax and £1.9 billion from UBR).

Setting the levy of LVT at 3.16p would, on the basis of the valuations in Figure 8, yield £3.8 billion to replace both the Council Tax and the UBR distributed as shown in Figure 9.

It is worth noting that on the basis of these figures, the maximum yield of LVT in Scotland (being 100% of the economic rental of land) is £12 billion per year assuming a discount rate of 10%.

A number of land uses would pay for the first time (e.g. agriculture and forestry). Industrial and business & retail would, by contrast pay only 18.5% of the total bill as opposed to 50% as now. This would represent a saving of 63% on the bills they currently pay.

Domestic property would pay 63.7% of the total bill - up from 50%. This is because LVT would be incurred on properties currently exempted from Council Tax (second homes, empty properties etc.). Under LVT, these rebates would not apply. Current Council Tax take, were these rebates to be abolished, would be £2.568 billion. LVT take by contrast is £ 2.422 billion. Thus the total LVT take would actually be less than the current Council Tax would be were such exemptions not to apply.

	LVT at 3.16p/£	Current contribution	Contribution under LVT
Agriculture	£574,117,680	0%	15.1%
Sporting Estates	£5,687,314	0%	0.15%
Forestry	£42,407,200	0%	1.12%
Derelict Land	£0	0%	0%
Urban Vacant land	£51,942,500	0%	1.37%
Residential	£2,422,661,400	50%	63.72%
Industrial *	£163,925,000	15%	4.31%
Business & retail *	£541,023,600	35%	14.23%
Infrastructure (assume 1%)	£0	0%	0%
Urban Open space	£0	0%	0%
TOTAL	£3,801,764,694	100%	100%

Figure 9. Contribution of different land uses to LVT. \* 50% of current locally raised tax is from Uniform Business Rates. The breakdown between industrial and business/retail is not known so here is presented as an estimate.

# COMPARISON WITH COUNCIL TAX

Furthermore, LVT would represent a redistribution of the Council Tax take between existing bands as compared to the present (see figure 10). This works to correct the regressive nature of existing Council Tax whereby properties in Band G have, on average, contributed 9% of the capital gains since 1991 in Council Tax whereas properties in Band A have contributed 23%.

It is important to stress that these figures are based upon average data across Scotland. There is significant regional variation across the country and local variation within local authorities and between different types of dwelling (detached, semi-detached houses and flats and tenements) and within individual streets. Some land values may be as low as 10% and some, in Edinburgh, for example, may be as high as 60%.

Moving from Council Tax to Land Value Tax would mean that 1,756,095 properties in Bands A - D (75% of properties) would be better off. The 305,985 properties in Band E (13% of properties) would be only 0.9% worse off. The 287,653 properties in Bands F - H (12% of properties) will be worse off.

Band	Current total CT	% of total	LVT total @ 3.16p/£	% of total	Council Tax	Land Value Tax	+/-
A	£399,528,234	15.6%	£268,070,342	11.1%	£766	£513	- 32.9%
B	£503,998,811	19.6%	£358,780,982	14.8%	£894	£636	- 28.8%
C	£380,088,060	14.8%	£304,157,274	12.6%	£,1021	£820	- 20.0%
D	£342,927,083	13.3%	£315,162,667	13.0%	£1,149	£1,056	- 8.1%
E	£429,204,672	16.7%	£433,055,773	17.9%	£1,404	£1,415	+ 0.9%
F	£279,103,062	10.9%	£320,989,760	13.2%	£1,660	£1,908	+ 15.1%
G	£207,355,350	8.1%	£351,994,719	14.5%	£1,915	£3,261	+ 69.7%
H	£26,538,346	1.0%	£70,449,882	2.9%	£2,298	£6,153	+ 165.5%
Total	£2,568,743,618	100%	£2,422,661,399	100%	n/a	n/a	n/a

Figure 10. Council tax compared to LVT at a rate of 3.16 per £ land value.

Column 2 represents the total Council Tax paid per band across Scotland (excluding discounts). This is derived by multiplying the number of houses in each band in each Local Authority by the appropriate Council Tax rate and aggregating those results, and Column 3 shows the proportion of the total Council Tax yield paid by properties in each band.

Column 4 shows the total yield of LVT at 3.16p/£, assuming average land values of 24.22% of property value, with property values based upon median values in each band uprated to 2009, and Column 5 represents the proportion of LVT which is payable by each band.

Columns 6 and 7 compare the current average Council Tax for each band with the LVT payable by the equivalent median property in those band, and Column 8 shows the consequences of the switch to LVT for each band.

The figure of 24.22% is derived from a total domestic property value of £316.5 billion (median of each band at 1991 uprated using house price inflation to 2009 values) divided by the product of residential land area and average land value per ha from Figure 7. Any change in the assumptions underlying this figure will alter the land value % and thus the LVT levy applied.

## National versus Local

LVT is designed to reflect variations in land values across a city or local authority area but variations do not stop at council boundaries. They exist across the country, and indeed across the world.

One way of dealing with the Scotland-wide aspect this would be for the LVT legislation to mandate (say) a 1p in the pound rate to reflect national land value variations and a discretionary rate of (say) up to a further 3p in the pound to finance local authority expenditure. The 1p rate would be introduced via an equivalent cut in central government grant funding since the Scottish Parliament has no powers to levy new national taxes.

An arrangement similar to that applying to non-domestic rates could be used whereby each local authority collects the UBR and pools in at a Scottish level.

It is then redistributed as part of the Distributable Amount (DA) which forms part of the Aggregate External Finance (AEF), the Government's revenue funding for core local government services

However, without the power to levy taxes, the Scottish Parliament can only set the framework for local taxation powers.

It is possible, therefore, that a local authority could, if they wished to, set a budget with zero LVT by accepting an equivalent to a 1p cut in central government grant and setting a zero local rate.

# AN ALTERNATIVE BUDGET

Rather than simply aiming to raise the equivalent of Council Tax and UBR (£3.8 billion), a more ambitious plan would be to raise additional finance which could:

**provide for a 3p per £ cut in the basic rate of income tax to demonstrate the beneficial effects of moving from taxing incomes to land;** and

**provide a source of funding for strengthened community councils (who will hopefully have such powers as financial control of some elements of local services, ability to repatriate common good assets, and management of physical infrastructure). To provide all of Scotland's 1,200 Community Councils with an average annual budget of £100,000 (a total of £120 million) would require a LVT levy of 0.1p per £ of assessed land value;** and

**provide a useful source of income for a sustainable Scottish Land Fund to be used to facilitate the acquisition of land by community groups and third sector organisations. A LVT levy of 0.01p per £ of assessed land value would provide an annual income of £12 million.**

The total proposed revenue from LVT under this scenario is £ 5.28 billion. This represents a 4.392p in the £ levy on the land value of Scotland and would increase the yield from each land use in Figure 9 proportionately. Specifically, it would have the following impact on existing Council Tax bands.

Band	LVT @ 4.392p	Council Tax	+/-	LVT yield
A	£713	£766	- 6.7%	£372,583,843
B	£884	£894	- 1.1%	£498,660,150
C	£1,140	£1,021	+ 11.2%	£422,740,110
D	£1,468	£1,149	+ 27.7%	£438,036,214
E	£1,967	£1,404	+ 40.2%	£601,892,707
F	£2,651	£1,660	+ 59.8%	£446,136,135
G	£4,533	£1,915	+ 135.9%	£489,228,104
H	£8,552	£2,298	+ 269%	£97,916,418

Figure 11. Effect of LVT at a rate of 4.392p per £.

To obtain some idea of the changes for households in a move to LVT, Figure 12 shows the comparative proportions of household incomes due in different council tax bands. This shows a greater equity between low income households and high income households.

Current CT by band	A	B	C	D	E	F	G	H
	£766.00	£894.00	£1,021.00	£1,149.00	£1,404.00	£1,660.00	£1,915.00	£2,298.00
Weekly wage								
less than 100	10.08%	12.76%	18.51%	*	*	*	*	*
100-200	2.90%	3.94%	5.67%	8.13%	8.77%	12.97%	14.26%	*
200-300	2.89%	3.64%	4.48%	5.72%	7.56%	8.04%	*	*
300-400	2.26%	3.19%	4.37%	4.92%	6.25%	7.70%	8.07%	*
400-500	2.06%	2.98%	3.77%	4.23%	4.93%	5.99%	6.34%	*
500-600	2.17%	2.37%	2.84%	3.23%	4.13%	4.73%	5.43%	
600-700	1.58%	2.07%	2.55%	2.85%	3.57%	3.96%	4.47%	
700-800	*	1.81%	2.24%	2.62%	3.19%	3.42%	3.94%	
800-900	*		1.77%	1.91%	2.39%	3.08%	3.74%	
900-1,000	*			1.46%	2.31%	2.80%	2.99%	
>1,000	*		1.03%	1.14%	1.55%	1.93%	2.17%	2.16%
Land Value Tax	£513.00	£636.00	£820.00	£1,056.00	£1,415.00	£1,908.00	£3,261.00	£6,153.00
Weekly wage								
less than 100	6.75%	9.08%	14.87%					
100-200	1.94%	2.80%	4.55%	7.47%	8.84%	14.91%	24.28%	
200-300	1.94%	2.59%	3.60%	5.26%	7.62%	9.24%		
300-400	1.51%	2.27%	3.51%	4.52%	6.30%	8.85%	13.74%	
400-500	1.38%	2.12%	3.03%	3.89%	4.97%	6.88%	10.80%	
500-600	1.45%	1.69%	2.28%	2.97%	4.16%	5.44%	9.25%	
600-700	1.06%	1.47%	2.05%	2.62%	3.60%	4.55%	7.61%	
700-800		1.29%	1.80%	2.41%	3.21%	3.93%	6.71%	
800-900			1.42%	1.76%	2.41%	3.54%	6.37%	
900-1,000				1.34%	2.33%	3.22%	5.09%	
>1,000			0.83%	1.05%	1.56%	2.22%	3.70%	5.78%
Beneficial Change	33.03%	28.86%	19.69%	8.09%	-0.78%	-14.94%	-70.29%	-167.75%

Figure 12. Percentage of household income paid in council tax and LVT by weekly earnings and council tax band

# IMPLICATIONS OF LAND VALUE TAX

What are the implications of LVT? How will it change the property market and the economy? To attempt some kind of a response to these questions I have prepared a number of scenarios which illustrate the kind of impact to be expected together with some issues that frequently arise in discussions about LVT.

One of the generic impacts of LVT will be a reduction of land values across all types of land as already explained earlier. The extent of this depends on the level of LVT that is levied. As it approaches 100% of the rental value, it becomes uneconomic to own land (excluding improvements) purely as an investment - that is to say an investment that will yield returns solely from rising land values. It will of course remain economic to develop land and earn a return from investment in improvements (offices, homes, insulation, drainage, facilities etc.). Indeed, it will become more profitable for two reasons.

» there will be no tax liability on improvements which lead to a rise in property value, since this does not affect the value of the land.

» land itself will be cheaper and a greater proportion of capital can be applied to useful improvements rather than land value speculation.

## Housing

The estimated level of LVT for Council tax band equivalent properties (Figure 10) is dependent on the assumptions made in Figure 9 on the extent of residential land and its value, which in turn governs the ratio of land value to property value.

Given the variation across Scotland and within localities, there will be some properties where the level of LVT would be three, four or even five times the existing Council Tax. The occupation of valuable land should result in higher assessments. Because land values are based on market values where they exist, the level of LVT for buyers will be known and will form part of their judgement as to the appropriate price to pay for property. It is worth remembering that one of the results of applying LVT will be to bring property prices down to more realistic levels since the land value will be discounted.

## Derelict land

Derelict and vacant land are treated differently in Figures 8 and 9. Derelict land is land much of which is in need of rehabilitation as a result of contamination. Vacant land is land that can be developed but which is lying vacant.

For the purposes of this study derelict land has therefore been attributed a zero-rate of LVT whilst vacant land has been assessed. The extent of both types of land is, in fact quite limited. The figures are very accurate and based on annual surveys. It is thus to be

noted that one of the popular arguments for LVT (that it will bring disused land into use) has in fact very limited application nationally, bringing in only 1.37% of total LVT yield. It may, of course be of rather more local importance in areas such as Glasgow and could attract enhanced rates of LVT, but it is not the golden goose of LVT that some imagine.

## Parks and public spaces

Public parks and other public amenity land will be zero-rated.

## A dairy farm

It is an irony that as dairy farmers face increasing pressure on prices for dairy products and thus reduced profitability, their asset values remain very high.

For example, a livestock farm of 91ha of Grade 4 land was recently on the market in Ayrshire at offers of £1.3 million. Assuming a land value of 75% of total property value, this values the land at £975,000 or £10,714 per ha (close to the £9181 per ha value used in this report - see Appendix). The LVT assessment for this property would therefore be £30,810. For a farmer struggling with debts, low prices and cash flow problems, this extra "cost" is not an attractive proposition!

But the question has to be why does a business struggling to earn its keep have an asset value of over £1 million? The answer is that economic factors other than the profitability of agriculture determine capital values - including the availability of business roll-over relief and the capitalisation of single farm payments.

A recent report observed that research by Knight Frank showed that UK farmland prices outperformed the FTSE 1000, prime country houses and prime London property, nearly doubling in value since 1995 and are expected to double again between 2010 and 2012. Andrew Shirley, head of rural property at Knight Frank claimed that as a long-term investment, farmland provided a return akin to gold. (Wilkinson, 2009).

This may be good news for city investors but it is not in the interests of farming to have its asset so persistently overvalued. In most conventional businesses, an investor would pay a rental for property in relation to the forecast profitability of the business. LVT for industry and business is thus not likely to pose the same challenges (indeed the figures in Fig 9 show clearly that they stand to gain significantly).

If £30,180 is deemed too much to pay on an annual basis for a livestock farming enterprise of this sort, this will put a downward pressure on land prices, so enabling farming to be conducted more profitably as a result of lower levels of indebtedness.

# FURTHER IMPLICATIONS

## A sporting estate

A typical sporting estate of 10,000ha will pay £31,600 per year LVT on an asset worth around £1.4 million (land value = £1 million). This will attract opposition but historically, sporting estates have been treated very favourably for taxation purposes and are owned by people with considerable wealth. Again, LVT acts to bring land prices into line with the market. If buyers are willing to pay £1.4 million for such a property, they are entering into a clearly understood commitment to an annual levy on the assessed land value. Whether prices fall or not will depend on the willingness of buyers to pay this.

## An industrial estate

Industrial units are traditionally very sensitive to the market and to the fortunes of business and industry. Thus rents are broadly in line with yields, and valuation assessments have been kept current through five-yearly valuations.

Industrial and business premises are winners in LVT, benefiting from the fact that property values have been regularly revalued, and compensated for by LVT income from a broader range of land use that is not currently assessed.

## A housing plot

LVT will have the effect of reducing the price people pay to existing owners for the land element of property because the community will be exacting a levy on the value of that land.

For example, a 1400 sq. m plot of land was recently advertised for sale in Moray for £150,000.

Under the present tax regime, a buyer will presumably be prepared to pay £150,000 for the housing plot. Following the construction of a house (let us say at cost of £200,000), the owner will have a property worth around £400,000. They will pay £2270 in Council Tax.

Under a Land Value Tax levied at the proposed rate of 3.16p in the £, a buyer faces the following decision.

The LVT on land valued at £150,000 is £4740 per year for so long as LVT is in operation, so after 10 years the land will have cost the buyer £47,400.

Paying a one off sum of £150,000 and anticipating a tax free capital gain on the land is one thing. Paying £150,000 and exposing oneself to a £4740 charge year on year is quite another. The result will be that the price drops to a level a buyer is willing to pay.

# THE FULL POLICY PROPOSAL

**In 2015 Council Tax and the Uniform Business Rate shall be abolished.**

**They will be replaced by a local Land Value Tax levied on the unimproved value of land only (excluding improvements such as buildings, drainage and services). All land in Scotland will be subject to Land Value Taxation.**

**There will be two rates of Land Value Tax - a national rate and a local rate.**

**The national rate will be set at 1p per £1 of land value and will be levied by the retention of an equivalent sum by the Scottish Government from the Aggregate Local Finance (AEF) for local government.**

**The local rate will be set at the discretion of each local authority.**

**A Scottish Land Use Database will be developed to identify the existing use of all land in Scotland. This will be based upon the existing General Land Use Database for England.**

**The programme of Land Registration will be accelerated to be complete by 2015. All local authorities shall have free access to the Land Register for their area.**

**The implementation of Land Value Tax will be led by local authorities, who will hold the Land Use database and continue to be responsible as the valuation authority for the appointment of assessors to value land.**

**Land values should be determined according to the best available market data and updated on a regular basis (at least every 2 years).**

**In the event of disputes over land values, an appeals process will be set up through local Land Tribunals.**

**Owners of land shall be entitled to self-assess their land value on condition that the local authority be granted a right of pre-emption (i.e to compulsory purchase) at this value.**

**Public open space, public transport infrastructure and open water will all be exempt from LVT.**

**Local and national government property will not be exempt, to encourage the efficient allocation of publicly owned assets.**

**Upon application, any owner over the age of 60 shall be entitled to roll up their Land Value Tax liabilities so they can be paid from the proceeds of sale of their property.**

## CONCLUSIONS

Land Value Taxation is no longer the preserve of advocates and lobby groups on the margins of public debate. It is now a mainstream part of contemporary debates over the future of public finances, local revenues and public infrastructure.

In addition, the idea no longer poses any significant technical challenges (if it ever did - remember the 1910 Inland Revenue Survey).

It does, however, pose political challenges. These are principally concerned with the opposition likely to arise from the right, the owners of properties on valuable land, and the agricultural and landowning lobbies. Business, retail and industry, on the other hand might be expected to welcome the idea, though, and so might those on lower incomes and those who support a more progressive tax system.

Such challenges are also bound up with the historic legacy of Britain's infatuation with homeownership and the wealth that can be generated from it. Indeed change will pose a big challenge to the business model of retail banking where so much lending is secured on property values.

As the figures in this study show, however, 75% of properties will be better off under LVT (and a further 13% only 0.9% worse off). Furthermore, for homeowners with mortgages, the reduction in land value will mean reduced borrowing and thus lower monthly debt payments. This reduction may in fact more than offset LVT bills meaning that homeowners are substantially better off and that banks will take a big hit instead!

In addition, at the higher levels shown in Figure 10, there would be an additional saving on the basic rate of income tax totalling £1044 per person if they earn £34,800 per year.

There are signs that the public is becoming weary of the house price escalator. For one thing, young people (and by that I mean almost anyone under the age of 30) are being impoverished through the high cost of accessing property. For another, the credit crunch has exposed the weakness of an asset-based debt model.

Combined with pressure for just rewards, fairness and greater equality, the arguments for LVT suggest its time may at last have come.

## Q&A

### **What exactly is a Land Value Tax?**

All land has a monetary value which can be expressed as a capital value or a rental value. Land Value Tax (LVT) is a levy or tax on that value. Importantly, it is only the land which is valued, taking account of any planning permission or zoning associated with it, and not any improvements made to the site such as buildings. For a domestic property, the house price includes both values, and the tax would not apply to the building, only to the land it stands on.

### **What difference would LVT make to communities and planning?**

LVT is designed to encourage efficient and sustainable usage of land. Owners of derelict and neglected properties pay no less tax than those who manage their properties better, thus providing an incentive to look after and use land well. Supermarkets and developers would be deterred from "land-banking", a speculative practice which regularly leaves brownfield land unused and unproductive. LVT also puts an end to the cycle of boom and bust in property. This stability makes it less likely that younger generations in rural areas will be priced out of the housing market. These price booms have also ensured that disproportionate amounts of capital are tied up in property rather than being invested in the economy, and have led to the unsustainable accumulation of debt. Similarly, bringing brownfield sites back into use eases pressure on green belts and reduces commuting, as well as helping to remove the derelict sites which can be a magnet for vandalism and other crime.

### **Does that mean that LVT simply encourages development?**

No, because local communities decide more or less democratically through the planning process what kind of developments to permit on individual pieces of land. A more open and democratic planning process would be desirable alongside any introduction of LVT. In particular, the same appeal rights should be given to the community as are given to developers, and proper consultation should take the place of the more token efforts currently prevalent. Owning green space without any planning permission for it would incur little or no tax.

### **What effect would LVT have on land values?**

In the short term, transitional arrangements would be likely to minimise any impact. In the longer term, LVT is in part designed to reduce speculation and moderate the kind of house price boom and bust which we have seen in recent years. These price booms have caused serious problems for young people seeking to get onto the property ladder, as well as for those looking to set up new businesses.

## Q&A CONTINUED

### **If I own my house, why should I pay tax on the land value?**

At the moment, land values are bundled in with property prices and all landowners (including homeowners) both pay for and benefit from the land value element of their assets. However, land values are bound up with what is allowed to be done with a site and how a society chooses to develop its urban or rural environment. If, for example, a new ferry terminal is built on an island that allows for frequent vehicle access to the mainland, land values will rise. That increase in value was not created by the landowner but by the community's decision to build the terminal and by its investment. Land value taxation recognises that this increase should be shared by the community. Such a mechanism can in fact be deployed with the express aim of helping to fund this kind of infrastructure project

### **Where else has a Land Value Tax been used?**

New South Wales and cities elsewhere in Australia raise a Land Value Tax, as do a number of American cities. Estonia, Taiwan and Singapore also use LVT. Closer to home, Glasgow City Council ran a pilot project in Dennistoun and Haghill, and published a report on the results in 2009.

### **How complicated would LVT be to administer?**

The main additional piece of work required would be a register of all land ownership and use in Scotland, a project which is currently incomplete, and a value assessed for each property. Beyond that, LVT would be no more complicated to levy than Council Tax or Universal Business Rates, and more difficult to avoid.

### **What transitional measures might be appropriate if Scotland moved to LVT?**

As discussed above, older people should be given an option to defer the cost and secure the debt against their property, while those who prefer to continue paying Council Tax until the property is sold could be permitted to do so. As another option to consider, LVT could be introduced over a 5 year period, and each year 20% of the tax take could be shifted away from existing council tax and business rates. Local authorities could also be given the freedom to use one or more other taxes locally as well as LVT.

### **What happens when more than one property is built above another on the same piece of land?**

Owners of tenements, high-rise flats or other shared buildings on the same land would each be responsible for an share of the overall LVT. The precise share would be in relation to the overall market value of each property on the site. For example, a two storey town house would pay approximately twice the amount of a one storey basement flat (although if the basement flat had exclusive access to a garden, the proportion paid by the basement would be higher).

### **What would the relationship be with Council Tax and Universal Business Rates?**

LVT would ideally replace both these property taxes, although it could in theory be introduced initially to cover only one or the other.

### **I am a tenant and I currently pay council tax. Would the landlord not simply add the LVT to my rent?**

First of all, you will make a saving by not having to pay council tax. Rents may well increase but overall most tenants will be better off. The rental market for property is a function of supply and demand, however, and rents cannot increase to a level where people cannot afford them. The introduction of LVT would provide an incentive for landlords to maintain and improve properties as such investment will not be subject to any increase in land value.

### **Would an older person living alone in a big house be hit hard by LVT?**

Some property owners, including some in this category, would see LVT bills above the current council tax level, which is why it will be important to introduce some transition arrangements. There are a number of possible ways of doing this. A retired person living alone would be allowed to put payment off by amortising the cost and securing it against the house value. Another option to consider would be to allow owners to continue with council tax if they wish until the property is sold, at which point the new owner would be required to pay LVT.

### **Some people have called this a garden tax. Is that fair?**

All land would be taxed on its value according to planning law. If a property has a garden without planning permission that allows it to be built on, it would be taxed only on the marginal additional value it brings to the property, just as the Council Tax currently does. If planning permission is sought and received to build on it, the land's value would increase and so too would the LVT. It would be no more fair to call it a garden tax than it would be simply to call it a wasteland tax, a mansion tax or a supermarket tax.

### **Would a Local Income Tax not be fairer?**

Currently tax is levied on income and property, amongst other things, which gives a broader and more balanced tax base than would be achieved by switching more of the burden to income. Furthermore, the kind of Local Income Taxes proposed by the SNP and the Lib Dems would be regressive, as they exempt all income from shareholdings and from property, so those at the top would pay nothing. In fact, it would encourage even more growth in the buy-to-let market and thus make the property market even more exclusive.

# REFERENCES

- Barker, Kate, 2003. Review of Housing Supply: securing our future housing needs. Interim report - Analysis. HM treasury, London.\*
- Barker, Kate, 2004. Review of Housing Supply: Delivering Stability - Securing our Future Housing Needs, Final Report. HMSO, London. \*
- Barker, Kate, 2006. Review of Land Use Planning.\*
- Buchanan, Colin, 2009. Economic Impact of High Speed 1. Final Report for London and Continental Railways in association with Volterra, London.\*
- Burt, 2006. A Fairer Way. Report by the Local Government Finance Review Committee. Local Government Finance Review Committee, Edinburgh.\*
- Churchill, 1909. Speech to House of Commons \*
- Coleman, Andrew and Arthur Grimes. 2009. "Fiscal, Distributional and Efficiency Impacts of Land and Property Taxes," Motu Working Paper 09-14.\*
- Connellan, Owen & Lichfield, Nathaniel, 2000. "Great Britain", in Andelson RV (ed) Land Value Taxation Around the World. Third Edition. Blackwell, Oxford.
- Connellan, Owen, 2004. Land value taxation in Britain: experience and opportunities. Lincoln Institute of Land Policy, Cambridge, Massachusetts. \*
- Cooperative Party, 2009. A Co-operative Agenda for a Fourth Term. The Co-operative party, London.\*
- Crompton, John L, 2000. The Impact of Parks and Open Space on Property Values and the Property Tax Base. National Recreation and Parks Association, Ashburn, Virginia.\*
- Crompton, J. 2001. The Impact of Parks on Property Prices. NPRA, [www.npra.org](http://www.npra.org)\*
- General Register Office for Scotland, 2001. Scottish Settlements: Urban and Rural Areas in Scotland.
- Glasgow City Council, 2009a. Consideration and assessment of local taxation model: land value tax. Glasgow City Council, Glasgow.\*
- Glasgow City Council, 2009b. Consideration and assessment of local taxation model: local property tax based on capital values. Glasgow City Council, Glasgow.\*
- GLUD, 2005 & 2006\*
- Greenspace Scotland, 2009. State of Scotland's Greenspace.\*
- Higgins, Wightman and MacMillan, 2002 Sporting Estates and Recreational Land Use in the Highlands and Islands of Scotland. Report to ESRC No. R000223163. University of Edinburgh & University of Aberdeen.\*
- Jones, Jerry, 2008. Land Value for Public Benefit. Labour Land Campaign, London.\*
- Kay, John and King, Mervyn, 1990. The British Tax System 5th Edn. Oxford University Press, Oxford.
- Lloyd, Toby, 2009. Don't Bet the house on it. No turning back to housing boom and bust. Compass, London.\*
- Lyons, Michael, 2007. Lyons Inquiry into Local Government. HMSO, London. ([www.lyonsinquiry.org.uk](http://www.lyonsinquiry.org.uk))
- McLean, Iain, 2005. The politics of land tax - then and now. In Maxwell & Vigor, IPPR, 2005.\*
- McLean, Iain, 2006. The case for land value taxation. Compass Thinkpiece No. 2\*
- Mankiw, N. Gregory. Principles of Economics. Mason, OH:Thompson/South-Western, 2004.
- Maxwell, Dominic & Vigor, Anthony, 2005. Time for Land Value tax? IPPR, London.\*
- McGill, Greg and Plimmer, Frances, 2004. Land Value Taxation: An Investigation into Practical Planning and Valuation Problems. FIG Working Week paper. Athens, Greece, May 22-27, 2004.\*
- Mitchell, SR, & Vickers, AJM, 2003. The Impact of the Jubilee Line Extension of the London Underground Rail Network on Land Values. Lincoln Institute of land Policy Working Paper.\*
- Muellbauer, John, 2005. Property Taxation and the Economy. In Maxwell & Vigor, IPPR, 2005.\*
- Muller, Anders, 2000. Property Taxes and Valuation in Denmark. Paper presented at OECD Seminar on Property tax Reform and Valuation. Vienna 19-21 September 2000.\*
- New Zealand Treasury, 2009 Land Tax. Background Paper for Session 3 of the Victoria University of Wellington Tax Working Group.\*
- Oxfordshire County Council, 2005. The Oxfordshire Land Value Tax Study. Oxfordshire County Council and Vale of White Horse District Council. \*
- Posen, Adam, 2009. Finding the Right Tool for Dealing with Asset Price Booms. Speech to the MPR Monetary Policy and the Markets Conference, London, 1 December 2009.\*
- Reynolds, Brigid and Healy, Sean (eds.), 2004. A Fairer Tax System for a Fairer Ireland. CORI Justice Commission, Dublin.\*
- Scottish Executive, 2002 Land Values and Planning.\*
- Teather, Richard, 2009. Yes, let's tax home ownership.\*
- Tideman, Nicolaus. The Case for Site Value Rating. [www.wealthandwant.com/docs/Tideman\\_SVR.html](http://www.wealthandwant.com/docs/Tideman_SVR.html) viewed 5 December 2009.
- Vickrey, William. 1999. Simplifications, Progression, and a Level Playing Field," in Kenneth Wenzer, ed., Land Value Taxation: The Equitable and Efficient Source of Public Finance. Armonk, NY: M.E. Sharpe, 1999, pp. 17-23.
- Wadsworth, M, 2006. Tax, Benefits, Pensions. Keep it simple Part 2: Ten steps to simplicity. Bow Group, London. \*
- Wilkinson, Tara Loader, 2009. Buying farmland is as good as gold. eFinancialNews Ltd. London.\*

\* available for download at [www.andywrightman.com/lvt](http://www.andywrightman.com/lvt)

# APPENDIX: LAND VALUATION ASSUMPTIONS

Agricultural land area is derived from Key Scottish Environment Statistics 2009 with rough grazing extent reduced by extent of Sporting Estates. Values are derived from Valuation Office data from January 2009 and weighted to arrive at a general agricultural value. The individual classes are as follows.

Agricultural use	Extent (ha)	Value
Crops, fallow & set aside	606000	£9,989
Grass	1235000	£9,181
Rough Grazing	3996000	£336
Woodland (agricultural)	354000	£336

Sporting estate data is derived from Higgins, Wightman and MacMillan, 2002.

Forestry extent is derived from Key Scottish Environment Statistics 2009 and value is an educated guess.

Derelict and vacant land from 2008 Scottish Vacant and Derelict Land Survey. Derelict land value assumed to be zero on average due to environmental constraints. Vacant land assumed to be 50% industrial value and 50% residential value.

Urban land extent is derived from the General Register Office for Scotland Settlement statistics.

Urban Open Space is derived from Greenspace, 2009.

The extent of remaining urban uses (industrial, business and retail and residential) is derived (in the absence of any Scottish land use statistics) from the ratios of each use in the English Generalised Land Use database. Values are set at a rough median of different locations and house types as published by the Valuation Office data from January 2009.

Industrial, business and retail extent is an estimate. Industrial, business and retail values are a rough median of VOA figures for various locations across Scotland.

Image credits where not already identified:

Page 6: <http://is.gd/fBSl2>

Back cover: <http://is.gd/fBSqW>

# A LAND VALUE TAX FOR SCOTLAND

Fair, Efficient, Sustainable

A report prepared by Andy Wightman  
for the Green MSPs in the Scottish Parliament



**Patrick Harvie MSP**  
4/2 Suite, 52 St Enoch's Square  
Glasgow G1 4AA

Tel: **0141 248 3850**  
Calls welcome via RNID Tynetalk: **18001 0141 248 3850**  
Email: [patrick.harvie.msp@scottish.parliament.uk](mailto:patrick.harvie.msp@scottish.parliament.uk)  
Web: [www.scottish.parliament.uk/msp/memberspages/patrick\\_harvie](http://www.scottish.parliament.uk/msp/memberspages/patrick_harvie)

**Scottish Parliament**  
Tel: **0131 348 5000**  
Web: [www.scottish.parliament.uk](http://www.scottish.parliament.uk)



The costs of this publication have been met out of Parliamentary resources.  
Printed on FSC certified stock.

If you require a copy of this publication in an  
alternative format, please just get in touch.