Centre for Labour and Social Studies

Think Piece

In Land Revenue: *The case for a Land Value Tax in the UK*

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May 2013

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Acknowledgements

The author would like to thank the following individuals in a personal capacity for their advice and support in developing this paper: Anneliese Midgley, Dave Wetzel, Heather Wetzel, John Cullinane, Kayte Lawton, Richard Greening and Toby Lloyd. Thanks also go to the paper's other reviewers who prefer to remain anonymous.

Executive summary

This paper argues that our current land economy does not serve us well. In response, it proposes a Land Value Tax for the UK. It does not dot every 'i' and cross every 't' of the policy detail required to make a Land Value Tax a reality. But it does hope to rekindle discussion of an age-old idea lent renewed currency by these straitened and unequal times.

A Land Value Tax, targeted at unproductive wealth and speculation, could help deliver the house-building revolution – and the economic revival – our country desperately needs. It would incentivise those who trade and sit on empty land to develop it for the common good. It would mean that the costs and proceeds of investment were more fairly shared. And it would be impossible to evade.

It should be levied on all land except for that which lies under ordinary people's homes. Very wealthy homeowners should pay, but those with limited incomes could defer payment where required. For it to work, all land ownership would have to be declared.

The valuation process might not be straightforward, but as a country we have done it before, and it is done elsewhere in the world. Existing systems used for current taxes could be built upon. The value of land for taxation purposes should be based upon its optimum permitted use, so farmers would not be badly hit, while landowners sitting on developable land could build it out or cough up.

The Land Value Tax could replace Business Rates and do away with Stamp Duty. And while it should become part of the local taxation system, its design should be informed by the lessons of equivalent fiscal arrangements around the globe.

In the end though, the proposition is simple. The few who own this land of ours should not get off tax-free while too many people cannot afford a decent home.

Introduction

Our economy is faltering. Too few people can afford a decent home. And yet the landed are getting loaded through no hard work of their own. ‘Something for something’ must apply as much at the top as the bottom. Construction must contribute to national recovery. Our people must be properly housed.

A Land Value Tax could go some way towards solving these problems. It would act as a real incentive for people who are sitting on empty banks of land to develop it, building the new homes we need and kick-starting the economy in the process. It would ensure that when landowners benefit from others’ investment in an area, they pay back a fair share. Devised carefully, it would demand a greater contribution from the wealthy – not least the international elite with their mansions in London – without affecting ordinary homeowners. And it would be one tax that the rich and powerful could not dodge.

The idea has a head of steam. In recent times the notion of a Land Value Tax has found advocates among senior parliamentarians of all the mainstream political parties, including Labour’s Andy Burnham, the Conservatives’ Nick Boles, the Liberal Democrats’ Vince Cable and the Greens’ Caroline Lucas. Think tanks including Compass, the Organisation for Economic Co-operation and Development, the Institute for Fiscal Studies, the Joseph Rowntree Foundation, the Institute for Public Policy Research and the Bow Group have all made the case. The Trades Union Congress and Occupy have both called for it. And the ghosts of Adam Smith, Tom Paine, David Ricardo, John Stuart Mill, Karl Marx, Henry George, David Lloyd George and Winston Churchill have all been conjured in support.

This piece seeks to lay out in an accessible way why, where and how a Land Value Tax could be introduced in the UK.

Why introduce a Land Value Tax?

Targeting taxes at unproductive wealth

Our taxation system should target unproductive wealth and speculation. But there is currently no tax on empty land in the UK. This means that it can be more lucrative to acquire and hold onto empty land, watch its value rise as others invest in the area, and then sell it, than it is to develop it for people to live or work on (Hull and Cooke 2012). Instead of promoting such land speculation – which makes for higher land prices, not more land – a Land Value Tax would promote new capital investment. It would tax economic rent rather than economic activity (House of Commons Treasury Committee 2011).

Tackling the underlying causes of the housing crisis

In order to resolve our chronic housing shortage without returning to damaging boom and bust, we need to tackle its underlying causes. Foremost among these is our treatment of land. Lack of land supply is the major constraint on housing growth over the long term (Barker 2004). A Land Value Tax set at the right level – high enough to be effective as an incentive as well as to justify the costs of collection – would encourage efficient use of land within the constraints of the democratic planning system, heightening the prospect of housing (and other) development and the reuse of brownfield sites, especially where planning permission has already been granted (Crawshaw 2009). The message it would give is that those who own land should use it.

By curbing speculation on land, potentially pushing down its value over time, a Land Value Tax could help to moderate house price inflation – remember house prices tripled in the decade up to the crash (Hull et al 2011) – reducing the likelihood of future housing bubbles. And a less volatile housing market would mean a more stable economy as a whole (Dolphin and Griffith 2011).

Sharing the spoils

At present, property taxes in the UK are levied based on the value of buildings. Council Tax is based on the capital value of homes and Business Rates are based on the average rent for commercial premises in the area. A Land Value Tax, on the other hand, would be levied on land itself, rather than any buildings on it. It would recognise that the unimproved value of land itself is dependent upon the investment in the surrounding area by the community, local businesses and the state, for which the landowner is not responsible (Labour Land Campaign 2011). A Land Value Tax, levied annually on the rental value of land, therefore taxes the unearned land value a landowner enjoys as a result of the investment of others.

The effect would be to align risk and reward more equitably. When the community as a whole, or the state on its behalf, takes a risk and invests in an area, for instance by developing its infrastructure, land values will rise and in turn should be taxed, returning a proportion of the gain to the public purse. This may indeed be enough to cover the initial outlay. Infrastructure investment could, in this way, become self-financing. A well-rehearsed example is London Underground's Jubilee Line Extension which cost the taxpayer £3.5bn but resulted in a £10-13bn increase in land values along the route (Maxwell and Vigor 2005, Lloyd 2009 and Wightman 2010).

Efficient and unavoidable

Land is a visible, fixed, immovable asset. As such, it cannot be hidden or offshored. This makes avoidance of a Land Value Tax hard (Inman 2011). Unlike Inheritance Tax or Capital Gains Tax, it does not depend upon death or disposal, making avoidance harder still. And because the supply of land is fixed, a Land Value Tax has no substitution effect, and therefore no deadweight cost or distortion, making it highly efficient (Lawlor et al 2011).

Where should we levy a Land Value Tax?

The perfect must not be the enemy of the good

A pure Land Value Tax would need to be levied on all land, regardless of its use. But the political headwinds against such a prospect are formidable: levying a new tax on all homeowners is unlikely to appear attractive to any politician. Better to pick a fight with landowners, of whom there are fewer by far. After all, two thirds of the UK's 60m acres of land are owned by just 0.36 per cent of the population (Adams 2011).

Exempting the land beneath occupied primary (as opposed to second or empty) residential properties up to a certain threshold property value of, say, £2m, would increase the political palatability of the proposal while still leaving the vast majority of all UK land taxable. And it would end the perverse tax advantages that landowners currently enjoy over occupiers.

'Devon pensioners'

Applying a threshold in this way might invite the 'parcelling' of land into smaller holdings, so the necessary legislation would need to be wise to this. And for the relatively small number of – generally elderly – asset-rich but income-poor homeowners occupying residences above the threshold set, deferral could be made possible such that Land Value Tax was not collected each year but instead accrued annually and then paid off upon sale or transfer of the property.

Universal registration

A prerequisite of a Land Value Tax would be completion of the Land Registry, which is currently only three-quarters complete (Land Registry 2011). The introduction of compulsory registration of all land holdings – not just those transacted – with appropriate sanctions (including forfeiture) for non-compliance should not be impossible, although it may well mean pulling together some pretty old documentation. Where legal title is held by nominated trustees, the Land Value Tax could be charged on the trustees but they could be given a right of indemnity against the beneficial owners.

How might we introduce a Land Value Tax?

Ad valorem

The primary practical problem with a Land Value Tax is how to calculate the annualised market rental value of unimproved land as separate from any buildings that may be on it. This can be a difficult counterfactual exercise, as there may be little relevant empirical data (such as recent empty land sales) to go on and the proportion of the price of a building which land accounts for ranges from a quarter to three-quarters, depending on where in the country it is. That said, in Hong Kong, Denmark, parts of the United States and Australia land is regularly valued for tax purposes.

The development by the Valuation Office Agency of a robust methodology should not prove impossible. After all, valuers already operate on the basis of various assumptions for the operation of Council Tax and the administration of Buildings Insurance. Indeed, using map-based data – which is common elsewhere, especially in the United States – this ought to be easier than valuing individual properties. In fact, David Lloyd George had the whole country valued in the run-up to his People's Budget a century ago.

Administration

Whatever the valuation method, it must be logical, transparent and fair. Errors in assessment cannot altogether be ruled out. And there would need to be a system for informal negotiation, and, failing that, formal tribunals, for hearing appeals and resolving valuation disputes. That said, as the Danish have demonstrated, the administration of such a tax need not cost the earth (the Danish model costs 1.5 per cent of the total money it raises) and systems already in place for appeals against Council Tax banding and Business Rates could be adapted for a Land Value Tax. Moreover, to avoid a repeat of what has happened with Council Tax – revaluation happening so infrequently as to render it unrealistic – the uprating of a Land Value Tax must be frequent (eg biennial) and must not be dependent upon subsequent political decisions.

Where land is held by persons outside the UK whom Her Majesty's Revenue and Customs (HMRC) cannot practically sue to recover unpaid Land Value Tax, HMRC could be given a statutory mortgage over properties where the tax is not paid on time.

Interface with planning

The only sensible basis for valuation is a piece of land's 'optimum permitted use' – the highest and best possible use of the land in question, given its current planning permission.

We do need to recognise the validity of different uses of land, such that farmers, for example, do not go unduly punished for using their land for agriculture. As in the 1931 Finance Act, the valuers could be instructed always to assess farms for agricultural use (unless planning permission has already been awarded for a development). Valuing for annual rental value would also eliminate any 'hope value' associated with the likelihood of a future change of planning status. 'It is important for the credibility of a Land Value Tax that no-one is expected to pay a levy based upon a value that cannot be realised as of the date of the valuation' (Wightman 2010).

To expedite that development which is permitted, a short period of grace could be allowed after a piece of land is granted new planning permission to build it out before the new, higher land value applies for taxation purposes.

Relationship with other taxes

It probably makes most sense for a Land Value Tax to replace Business Rates and Stamp Duty Land Tax, as 'the business rate is not a good tax' and 'the case for maintaining stamp duty is very weak indeed' (Mirrlees 2011). Council Tax would remain, although it is also in need of serious reform (Lyons 2007). So, all land, whatever its use, would be subject to the new Land Value Tax, except for land with an occupied primary residence on it up to a property value of £2m. Land Value Tax on very expensive primary residences would supplement the Council Tax, which at this end of the market accounts for a tiny proportion of a property's value (Griffith et al 2012).

Logic dictates that a new type of tax on fixed assets should be administered locally, so, while central government should look after the mechanics of valuation, local government should set the rates. A Land Value Tax would then bolster the local tax base, adding to it both land in idle sites and land under empty buildings. The fiscal implications of this need sophisticated modeling and the political consequences at local and national level demand careful consideration too.

International precedents

Local land taxes exist in Australia (New South Wales) and the USA (Pennsylvania). Denmark and Estonia both have national variants, as do Taiwan, Hong Kong and Singapore, although the structures of land ownership there differ markedly. South Korea, Japan and some Caribbean states also have some experience of land value taxation. Any attempt to introduce a Land Value Tax in the UK should draw on learning from overseas.

Conclusion

What is proposed here is different from what British governments have tried before. A Land Value Tax is explicitly not a development or betterment tax, both of which have failed in the UK previously. It is the opposite, intended as it is to spur development.

Introducing a Land Value Tax here will take political courage. It will mean facing down vested interests, not least the big land-banking 'developers' who deliberately drip-feed properties onto the market, making large profits on small volumes of output, even though they have the land and the country desperately needs more homes (Griffith 2011). It will take a manifesto commitment, a real mandate, and no doubt a battle in parliament. But, at least in some sense, this land is ours. And our tax system should reflect that fact.

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