LAND VALUE TAXATION CAMPAIGN

THE BALANCE OF FUNDING REVIEW
RESPONSE

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ABOUT THE CAMPAIGN

The Land Value Taxation Campaign is a non-party/all party organisation whose aim is to secure legislation for the replacement of existing taxes on wages, goods and services with a property tax on the rental value of all land[1]. As is the case with all forms of property tax, LVT is suitable for all tiers of government and can be readily adapted to the multi-tiered structures which have been created as a result of Scottish, Welsh and Northern Irish devolution and the possible establishment of English regional assemblies. This document explains how this tax reform could be readily achieved through a reform of the present system of local government finance and that this reform, if carried out along the lines described, would, amongst many other benefits, help to resolve long-standing and apparently intractable difficulties with the system of local government finance, including the issue of the balance of funding as between local and national taxation.

SUMMARY OF CONCLUSIONS

1 The Campaign advocates the replacement of the Council Tax and the Uniform Business Rate by a property tax based on annual rental site values only; all land, including vacant and agricultural land, would be assessed for the tax, and the assessment would be on the assumption that the land was at its optimum permitted use within the constraints of planning and other controls. This would be fairer and easier to administer than the present property taxes assessed on values of land and buildings.

2 Within a given taxation area, the rate of tax should be the same for land in all classes of use.

3 The tax would be multi-part, with elements set by central government, the local authority and any other tier of government already established or likely to be created under devolution proposals. For that part of local government finance where service provision is to a national standard and local authorities are effectively agencies of central government, it is suggested that they should be fully funded from the national element of the land value rate; possible examples include police and fire services, education and social services

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1 The Land Value Taxation Campaign believes that confusions arise through imprecise definitions of "land", or rather, through indiscriminate use of otherwise precise definitions. Whereas at law, "land" means immovable property ("real property"), the Campaign uses the word in its meaning in political economy (the whole of the material universe outside of man and his products). Anyone with a beneficial interest in land (a holding which could be let or sold at profit) is to that extent a landholder. Popular usage more nearly corresponds to the Campaign's: people do not normally think of houses, factories and farm buildings as "land". To add to the potential for confusion, book keepers drawing up balance sheets regard land as capital, which in political economy it definitely is not.

1 CURRENT SITUATION

1.1 Advantages of the UBR/Council Tax combination are:

1.2.1 Administration is relatively easy.
1.2.2 Ensuring compliance is straightforward; the taxes are difficult to evade or avoid.
1.2.3 Because the taxes are tied to property, they can be localised and be applied to any form of local government structure.

1.3 Disadvantages of the UBR are:

1.3.1 Valuations involve the inspection of individual premises, as installed machinery and plant are included in the valuation. In some uses, the UBR is close to being levied simply as a turnover tax.
1.3.2 Many appeals are generated when valuations are revised.
1.3.3 There is a financial disincentive to improve and develop, as a modern building is assessed at a higher value and subject to a higher tax than an old one.
1.3.4 Non-use or under use of land is incentivised.
1.3.5 Valuations are insufficiently frequent. The consequences of this are exacerbated by the transitional arrangements, which effectively prolong the use of out-of-date assessments.
1.3.6 The exemption of property in agricultural use distorts the land market, favouring agriculture rather than other uses.
1.3.7 The fact that all the revenue from the UBR is allocated to local authorities by central government gives rise to high ‘gearing’ of discretionary local authority expenditure, which can only be varied by a disproportionately large increase in the Council Tax.
1.3.8 Local authorities have no direct interest in promoting improvements and developments that would lead to an increase in commercial rental values in their area.
1.3.9 The tax can be avoided because valuations are based on structures ‘as they stand’ and buildings can readily be, and sometimes are, rendered unusable for property tax avoidance purposes, eg by ‘de-roofing’ or ‘constructive vandalism’.
1.3.10 Small business exemptions and balancing surcharges are eventually claimed or absorbed by landlords as economic forces ensure that total occupation costs are determined by commercial market conditions.

1.4 Disadvantages of the Council Tax are:

1.4.1 The tax is regressive in that an undue proportion of the overall burden is borne by occupiers of lower-value properties.
1.4.2 The tax is also regressive across local authorities, with the lowest rates found in areas where some of the most expensive properties in England are situated.
1.4.3 The fact that about 75% of local government revenue comes from central government, means that the Council Tax is subject to high ‘gearing’ of discretionary local authority expenditure, which can only be varied by a disproportionately large change, almost invariably an increase, in the Council Tax.

1.4.4 The tax cannot generate sufficient revenue; when Council Tax was first introduced, VAT was raised from 15% to 17.5% to cover the shortfall.
1.4.5 Non-use or under use of land is incentivised.
1.4.6 It is a loudly voiced complaint that the Council Tax causes hardship to those – mostly older people – who are 'asset-rich but cash-poor'.

1.5 The relationship between the UBR and the Council Tax distorts the overall land market, since it tends to favour residential use[2]. The tax liability of a property in commercial use is higher than if it is converted to residential occupation, and so its market value as residential is higher.

2 OPTIONS FOR REFORM

2.1 The main options for local property tax reforms currently being canvassed are:

2.1.1 UBR to be partially localised.
2.1.2 Revision of Council Tax bands, with a new valuation and a new formula for the allocation of charges between bands.
2.1.3 *Ad valorem* land value tax, with nationally and locally determined elements.

2.2 As regards the balance of funding, reforms 2.1.1 and 2.1.2 taken together would have the following advantages compared to the present system. However, most of the other disadvantages mentioned in section 1 above remain.

2.2.1 Localisation of the UBR would reduce the present excessive 'gearing'.
2.2.2 Local authorities would have an interest in promoting improvements which would lead to an increase in commercial rental values in their area.
2.2.3 Where there is a significant proportion of higher value residential properties, the introduction of higher Council Tax bands would make the tax capable of generating additional local income.

2.3 The drawbacks of the UBR and the Council Tax would be overcome if the assessments were based on annual site rental values alone.

3 ADVANTAGES OF SITE VALUE PROPERTY TAX

3.1 Site value assessment (Land Value Taxation) as proposed by the Campaign preserves the main advantages of the existing Council Tax/UBR system.

3.2 Conversion to site-value assessment would overcome most of the disadvantages of both the present arrangements and the retention of the Council Tax and UBR in substantially their present form.

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2 The situation could be reversed if Council Tax continues to increase relative to the non-domestic rate. The distortion in the land market remains.

3.2.1 Valuations are less costly since they no longer involve the inspection of individual premises, as the buildings themselves and installed machinery and plant are ignored in the valuation.
3.2.2 Fewer appeals would be generated when valuations were revised.
3.2.3 Improvements would not be penalised, as the replacement of an old building by a modern structure would not affect the assessment.
3.2.4 The owner of vacant or underdeveloped land would have an incentive to develop in order to secure the revenue stream with which to pay the tax.
3.2.5 With no need to inspect individual premises, valuations could be revised annually, mostly by statistical adjustment, with substantive valuation quinquennially and when major local changes occurred.
3.2.6 The inclusion of land in agricultural use would yield additional revenue and remove distortions in the land market without adding to the cost of farm produce[3]. It would also serve as a clawback mechanism to recover that element of land value arising from grants and subsidies, for example, from the EU.

3.3 The Campaign's proposals address the essence of the balance of funding issue. A land value tax in the form proposed, with both local and national components, would permit the long-term phasing-out of present taxes on labour, capital, and their products.

3.3.1 It would reduce the present excessive 'gearing' of local government funding, but local authorities would have to be forbidden from raising the tax differentially on land in different classes of use.
3.3.2 Local authorities would have an interest in promoting improvements and the provision of services and amenities which would lead to an increase in land values in their area.
3.3.3 Equalisation would be straightforward, from areas where aggregate land value was high to areas where it was low; central government would simply precept and redistribute. The national LVT precept would replace a major slice of national taxation, at the same time reducing the amount of money churning in the system since, in the first instance, the LVT mechanism of itself ensures that less is raised from poorer areas where land values are low. It would thus take account not just of the 'North-South' divide, but also of the fact that there are poor areas in parts of South East England, and pockets of affluence in Scotland and the North.
3.3.4 The tax base would be larger since vacant, derelict, underdeveloped and agricultural land would be assessed and taxed on the basis of its full value.
3.3.5 The tax would no longer incentivise the under-use or non-use of land.

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[3] Tax concessions and the right to subsidies are capitalised in the price of agricultural land. Conversely, withdrawal of these advantages leads to a lowering of land prices, as recent experience in New Zealand attests. Even the best agricultural land is of low value compared with almost all urban land; in a land value taxation regime, marginal land used for farming, by definition, escapes payment altogether.

3.3.6 Rental values are stable, unlike capital values which are volatile.[4]

3.3.7 Tax rates in a given taxation area could (and should) be identical for properties in all classes of use because the difference in use values would be already included in the assessment. Thus, the tax treats holders of all classes of land fairly since it is applied equitably to all sites and does not penalise those who develop efficiently and appropriately.

3.3.8 Land is permanent, and the tax could no longer be avoided by devices such as 'de-roofing'.

3.3.9 There is no possibility for avoidance or evasion, as land cannot be hidden, moved about or relocated to a tax haven. The LVT cannot be avoided because the land is physically tied to its location and if the duty is not paid, the asset can, in the last resort, be confiscated.

3.3.10 Marginal areas are revitalised. Economic activities are handicapped by distance from the major centres of population. Conventional taxes such as VAT and those on transport fuels cause particular damage to the remoter areas of the country. LVT, by definition, bears lightly or not at all where land has little or no value, thereby stimulating economic activity away from the centre – it creates what are in effect tax havens exactly where they are most needed and reduces the need for regional assistance.

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

3.4 The taxation of land values has a sound basis in ethics because land is a gift of nature and land values are the product of the natural advantages of the land and the presence and activities of the community. Land value reflects all communal, social and natural benefits and advantages. Thus a tax on land values returns to the community the value that the community creates.

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4 The primary measure of the value of land is its annual rental. The relation between rental and capital value depends on fluctuating factors such as changes in interest rate, expectations of market performance, and, indeed, hope of changes of planning consent to permit higher-value use. This makes capital values unstable, as the land market is liable to be disrupted from time to time by speculation and waves of panic buying – often followed by collapse. Capital values are thus unreliable as a measure of the current use value of land. This is discussed further in a separate document published by the Campaign, 'Rental Value or Capital Value?'

4 PRACTICABILITY OF SITE VALUE ASSESSMENT

4.1 This system of property taxation is in use in a number of places including Denmark, some of the Australian states and several towns in Pennsylvania. In 1989, a thorough report recommended its continuation in Brisbane. This was accepted. Copies of the summary of the 1989 Brisbane report are available on request and can also be downloaded from the Campaign's Internet site.

4.2 A land value survey was carried out on behalf of the Rating and Valuation Association in Whitstable, Kent in 1963 by valuers Hector Wilks and Company, who also made a follow-up study in 1973, this time for the Land Institute. No particular difficulties arose, and the report commented on the relative ease of the task, as compared with the system of valuation then in use for rating purposes, which, as now, was on the composite value of land and buildings or other structures.[5]

4.3 The necessary valuation expertise is available within the surveying profession.

4.4 Land value taxation could be readily incorporated into the UK legislative and administrative framework by modification of the existing UBR/Council Tax.[6]

5 IMPLEMENTATION

5.1 Although the scheme proposed could be implemented at any time, if carried out as described below, it should be achievable at no additional cost or even with a small saving.

1A Forthcoming Council Tax revaluation should not take place. Instead, there should be a valuation of all residential land to be assessed on site values only, disregarding the value of all dwellings and other improvements.

1B The next scheduled UBR revaluation to be based on site values only, including vacant and agricultural land.

5.2 Multi-part site-value tax to be introduced with *all land in the same taxation area to be subject to the same rate of tax regardless of permitted use since the differences in use would be already reflected in the valuations*. There is no necessity for different rates of tax, with the distortions in the property market to which this would give rise.

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[5] At the time of writing, the Whitstable land value survey is being revised and a land valuation exercise is being conducted in part of the area covered by the Vale of White Horse District Council (West Oxford).

[6] The London Rating (Site Values) Bill 1938-1939 is a model. Copies are available on request and can be downloaded from the Campaign's Internet site http://www.landvaluetax.org.uk.

5.3 The tax would be made up as follows:

COMPONENT	SET BY
NATIONAL	CENTRAL GOVERNMENT
REGIONAL (where applicable)	THE DEVOLVED BODIES CONCERNED
LOCAL	LOCAL AUTHORITY

Billing and collection of the tax would be by the lowest tier authority (unless this was a parish council). Regional and national components would be precepted.

5.4 Many services are provided by local authorities to national standards, with councils acting as agencies of central government, and it is suggested that these should be fully funded from the nationally determined element of the site value rate; examples include police and fire services, education and social services.

5.5 Transitional arrangements. The Campaign suggests that the initial rate of tax should be fixed so that the median taxpayer is paying much the same as at present. Because vacant and agricultural land would be included in the assessments, the extended tax base means that the total yield would be more than under the present system, permitting a reduction in other taxes.

5.6 There will be a continuing need to keep under review which local services are paid for from local taxation and which from central government taxation and by direct charging.

6 PROPOSED LEGISLATION

6.1 The form of site-value taxation and definition of land value which the Campaign advocates is substantially the same as was put forward in the London Rating (Site Values) Bill 1938-1939.