LAND VALUE TAXATION CAMPAIGN

REJOINDER TO

OUTCOME OF NORTHERN IRELAND EXECUTIVE'S REVIEW OF DOMESTIC RATING SYSTEM, 2007

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List of abbreviations used in this Rejoinder

the Executive	the Northern Ireland Executive
the Campaign	the Land Value Taxation Campaign
LVT	land value taxation
the Review	Executive’s Review of Domestic Rating Reform, 2007
the Response	the Campaign’s Response to the Review (August 2007)
the Outcome	Outcome of the Executive’s Review (December 2007)
U of U	School of the Built Environment, University of Ulster
the Overview	Land Value Taxation: An International Overview (2/11/07) [a U of U document, included as Annex C in the Outcome]

PREFACE

P.1 A new domestic rating system was introduced in Northern Ireland in April 2007 under Direct Rule, based on the composite capital values of land + buildings and other improvements (*i.e.* on buying/selling prices).

P.2 The Executive conducted a Review. The Campaign submitted a Response. The Response, covering changes proposed for action in the longer term (as distinct from modifications to the new system thought suitable for implementation in April 2008), consisted of the following sections and appendices:-

1	The new domestic rating system
2	Options for reform
3	Advantages of land value taxation (a property tax on site value only)
4	Practicability of site value assessment
5	Implementation
6	Proposed legislation
7	Further implications of a change to site value assessment
8	Funding of water and sewerage services
9	Conformity with the Executive's model criteria for local taxation systems
10	Conclusions

Appendix A	Definition of land value taxation
Appendix B	Definition of site value
Appendix C	"What Is Land Value Taxation?"
Appendix D	Ability to pay or the benefit principle?
Appendix E	Capital value or annual rental value?
Appendix F	Asset rich/cash poor
Appendix G	Contaminated brownfield sites
Appendix H	"Overcoming The Odds"

P.3 The Overview was commissioned by the Executive from the U of U "to carry out research into…land value taxation" (Outcome, paragraph 7). The Executive then published its Outcome document, which dealt with LVT in three paragraphs, numbers 109, 110, and 111. The Campaign respectfully submits this Rejoinder.

1. EXECUTIVE'S OUTCOME OF REVIEW DOCUMENT: PARAGRAPHS 109 TO 111

1.1 As noted in 10.9 of the Response and set out more fully in section 9, LVT measures up very favourably against the Executive's model criteria for local taxation systems.

1.2 The Outcome does conclude that LVT is "conceptually sound", which of course is gratifying to the Campaign.

The Outcome nevertheless concludes "that there are sufficient doubts about the suitability of a land value taxation system as an alternative to the rating system here [*i.e.* in Northern Ireland] to suggest that the matter should not be pursued."

A system which is conceptually sound is held to be unsuitable. It is therefore to be overlooked in favour of one that, in the stated circumstances, cannot be labelled as other than conceptually unsound.

2. EXECUTIVE'S OUTCOME OF REVIEW DOCUMENT: ANNEX C

2.1 The U of U document is specifically entitled "Land Value Taxation: An International Overview". In fact it is more than that, but it is not systematic in its study of the LVT case and it does not attempt to follow the Response through the arguments.

2.2 This Rejoinder will, for ease of reference, comment on the Overview *seriatim*, starting with the Introduction and working through the subsequent headings, to finish with the Executive summary.

2.3 Overview: Introduction

2.3.1 First paragraph. "Land value taxation…is conceptually sound but has from an international perspective limited application." The last part of this sentence (following "but") is correct as a statement of fact to-day, but, in so far as the wording can and will be read as a value judgement and assessment of LVT, it is most certainly disputed by the Campaign. As a judgement, it requires U of U to produce detailed and careful argument to support it (how can the logically sound be inherently worthy of such limited practical application?). As a statement of fact, it is not difficult to list explanations of why and how it has been ignored. The Overview attempts neither.

2.3.2 Fourth paragraph. "In terms of international usage land value taxation is not as extensively used, as for example, annual rental value or capital improved value." This is unclear – annual rental value of what? Is LVT simply being compared to a composite land + developments system? As for the statement that in South Africa "all municipalities now must *[sic]* adopt capital improved value as the basis", does this not sit uncomfortably (to say the least) with the earlier remark, also covering South Africa, on "the more popular capital improved value" basis? Incidentally, the Overview does not consider the Brisbane Inquiry report, which the Response called up at 4.1 and 5.7 and at D.3 of Appendix D.

2.3.3 Fifth paragraph. U of U will be aware that LVT has never been implemented anywhere in the United Kingdom. To allow a contrary inference to be drawn is neither accurate nor, in the context of the Review, fair. It is true that there have been little land taxes and variations on the theme of land development charges, but there has been no straight land value tax. The bundle of 1909 duties did not include LVT (although the Government had certainly campaigned for it!), and the 1931 provisions (which, although not ideal, undoubtedly were for LVT) were first put in abeyance and then withdrawn unimplemented. The Campaign is vigorously opposed to the introduction of aberrant land tax policies. Furthermore, citing mere "suggestions" made by others on surveying and valuation costs without appending comment or qualification, is equally unhelpful. The Campaign does not accept the allegation of difficulty and high costs – quite the reverse, in fact, as is clear from its Response (at section 4 with footnote 10, and *passim*).

2.4 Overview: Advantages of land value taxation

2.4.1 First bullet. The Overview cites without comment the statement, "Because the value of land is, for the large part, a result of society efforts rather than efforts on the part of the owner, society should reap the benefit of increased land values through taxing this enhanced value." The unavoidably clear implication is that U of U agrees with this. The Campaign is polite enough to doubt that U of U does agree, but passing it by without correction is nevertheless a serious oversight.

2.4.1.1 The references to "increased land values" and to "this enhanced value" show a fundamental misunderstanding of what LVT is all about. A tax on incremental land value is not LVT, and is neither fair nor sensible, as explained at Appendix A of this Rejoinder. The Campaign is categorically opposed to any such proposal.

2.4.1.2 All land value, not just incremental value, has been brought into being by the aggregate demand of society as a whole for living, working, and recreational space. Not only that, but all current value is maintained by the continuing (though, over time, variable) demand for land, together with assumptions and/or concerns about the essential continuity of social order and general well-being.

2.4.1.3 The distinction is made between land and manufactured products (and, by extension, provision of services). Land is unique. Unlike consumer goods and capital goods, land was not made by man, and, for practical purposes as well as within the terms of political economy, is not reproducible and not transportable. When there is a shortage of a man-made product, more can be manufactured and additional supplies can be brought in from outside. When demand for land in a specific location or locality goes up, all that happens (all that can happen) is that the cost of access to it is raised. The price mechanism does not work with the land market in the way it does with man-made goods. Land is, literally, a natural monopoly. Each location is unique.

2.4.1.4 That land is a free gift to mankind (it came with the planet!), together with the observations at 2.4.1.2 and 2.4.1.3, above, support the Campaign's contention, at P.1 of the Response, "that public revenue be raised throughout the United Kingdom by the method known historically as land value taxation. The Campaign distinguishes the returns to labour and capital, which it regards as private values, from those to land, which it contends are public values and thus peculiarly suited to provide the basis of public revenue."

2.4.2 Third bullet. This statement, that LVT "encourages compact city centre development" at the expense of "urban/suburban sprawl", is of course correct (3.4.4 of the Response refers). See, however, 2.5.6, below.

2.4.3 Fourth bullet. The alleged difficulties in "factoring out land values" are not substantiated by the experiences of Wilks at Whitstable (see 4.2 of the Response), whose second report specifically commented on the relative ease of the task as compared with the system then in use in England for rating purposes, which (as now, with the council tax and the uniform business rate) was on the composite value of land and buildings or other structures. Furthermore, the present writer was in a small group of others, including a M.P., which was assured by a panel of surveyors that the necessary valuation expertise was already available within the profession [although, for sake of clarity and correctness, it has to be added that only the practicability of LVT was under consideration, the policy itself being neither endorsed nor rejected on the occasion of the meeting at which the statement was made].

2.4.4 Sixth bullet. "Land valuations are easily determined…". This makes it difficult to understand why "difficulties in factoring out land values" were brought up in the fourth bullet point (see 2.4.3, above).

2.5 Overview: Disadvantages of land value taxation

2.5.1 First bullet. The unqualified reference here in the Overview to "a restricted tax base" suggests that U of U is insufficiently aware of, or perhaps even unsympathetic to, the underpinnings of the LVT case as treated in the Response and touched upon in 2.4.1.2 and more particularly in 2.4.1.3 and 2.4.1.4, above. The Campaign does not wish to tax the returns to labour and capital, which are private values, but only the rental value of land, which is already a public value and thus ideally suited to be the basis of the public revenue. The amount of annual land rental value in the U.K. lies somewhere between the presently assessable figure for the total land value and the sum of that figure and the amount of tax currently being collected under the existing revenue-raising régime. The Campaign can justify this assertion, if required, but of course it is not relevant in the current narrower context of a replacement for the new domestic rating system in Northern Ireland. There is no “restricted tax base”: it is vast. What is the nature of this “flexibility” that U of U wants from extending taxes to dwellings and other domestic developments?

2.5.2 Second and third bullets. “Whilst not impossible it is difficult to separate the value of land from the value of the improved property…”. The separation is being made all the time. Buildings insurance should take no account of the land except for an allowance for clearance of rubble from the site after total structural collapse. Where agricultural land lies in the path of expanding suburban development, the value of an old chicken coop is as nothing compared with the pickings from land value stemming from a switch to domestic or commercial application. Rising prosperity leads to rising demand and to rising land values in the more desirable locations, which in turn lead to sale of a property where the new owner pulls the existing property down and erects something more modern and grander (meaning that all he wanted in the first place was the site). What happens in the real world is that gainful transactions take place, with many a smooth turn made by spotting seemingly small changes such as the siting of a ’bus stop, the positioning of a pedestrian crossing, the erection of a barrier to impede crossing, or pedestrianisation or a one-way traffic system. Every decision will be reflected in land value (usually up, occasionally not). The only question is whether that value is to be collected, via LVT, for public benefit, or given away to lucky private interests so that Joe Public can pay a second time to keep his local authority solvent. Incidentally, how many of those who would complain of over-valuation would actually dispose of their land at the reduced figure they are arguing for? In so far as comparables and differentials are involved (which is most of the time), let the landholders argue it out at the tribunal, amongst themselves but publicly! Are we really to believe that properly schooled, trained, and experienced surveyors and valuers, given due guidance through the legislation (which they will have followed, stage by stage, and may well have contributed to) are such inadequate wretches as to be unable to do their jobs decently? Fie!

2.5.3 Fourth bullet. “Explaining the [LVT] system to ratepayers”. This is an insult to the intelligence of Northern Ireland’s citizens, who enjoy proportional representation by the single transferable vote, the best, though most complex, voting system in the U.K. By the way, if said ratepayers are “intuitively aware of the improved values of their properties” [“intuitively” – surely not?] then it should be explained to them that they are conning themselves, the more so if they live in expensive properties. Capital values are no more a satisfactory basis for composite land + buildings assessments than they are for land alone. Please see the Response, at Appendix E, at E2.1.1, E2.1.2, E2.1.3, E2.2, E2.3, and E5 in particular. *Mutatis mutandis*, the same considerations apply to composite property valuations.

2.5.4 Sixth bullet. On ability to pay and the benefit principle, please refer to the Response, at 9.1.2 and at Appendix D and Appendix F. Perhaps strangely, the Overview document nowhere points out that the Burt inquiry on local government finance in Scotland recommended, in its report to the Scottish Executive, essentially the same system as now operates in Northern Ireland: what Burt called a Local Property Tax was summarily rejected. The Campaign's views on the disadvantages of the new domestic rating system are in the Response, at 1.4.

2.5.5 Seventh bullet. Without clarification of what this means, no reply is attempted.

2.5.6 Eighth bullet. The statement here, that LVT would "tend to bring about development in peripheral areas and increase pressure on urban fringe land" directly contradicts one that the Overview made earlier. See the Campaign's comment at 2.4.2, above. The U of U cannot have it both ways. It was, of course, right the first time and is wrong now.

2.5.7 Ninth bullet. To state that LVT "can create undesirable development particularly where the planning system is not operating efficiently" is to invite two simple rejoinders. First, what do you expect from a planning system that does not operate efficiently? Secondly, is the reader to believe that there is an absence (or even a comparative absence) of undesirable development in an inefficient régime provided LVT is not in operation? In fact, LVT assists planners, by recording where pressures to develop are appearing and providing useful indications of the likely returns from future LVT yields which may justify public investment in improved infrastructure.

2.6 Overview: Incidence of the land value tax

Apart from a small but important modification to the heading (the insertion of "value" between "land" and "tax"), the Campaign is happy to signify approval. It might make it even clearer if the third sentence were to be tweaked to read, "Competition therefore ensures that a tax on land values has to be borne in full by the owner of the land."

This view of the effect of inelasticity of supply is supported in "Investment Appraisal in the Public Sector: a Technical Guide for Government Departments" (H.M. Treasury, 1984). The supporting example refers to land, rents and land values.

2.7 Overview: Valuation assumptions – Highest and best use

2.7.1 In both paragraph 109 and paragraph 110 of the Outcome, it is averred that LVT is based on "highest and best use" of land. No such form of words was used by the Campaign anywhere in its Response, although they were used in the Overview. The Response declared (Appendix A, A2) that "Each unit of land is assessed at its bare site value, with all surrounding land taken as being in its existing condition. The valuation is on the basis of optimum use within whatever permissions and constraints apply", and again (Appendix E, E4.2) that "The realistic value for land is the annual rental – what a willing lessee would pay a willing lessor at the date of valuation for a perpetually renewable lease, assuming optimum use within prevailing planning and other constraints". Given the opening two sentences of its third paragraph in the section now under consideration, it seems safe to conclude that U of U and the Campaign are indeed of the same mind on this point.

2.7.2 The Overview begins its fourth paragraph by stating, "Highest and best use can change over time as external market forces change", adding that, "These forces include…land use regulation (especially zoning)", and that "highest and best use is always estimated as of the valuation date". So far, this aligns well with the Response, which records in the fourth paragraph of the opening statement in Appendix C, that "If the current planing restrictions on the use were altered, the site would be reassessed".

2.7.3 There is a subsequent divergence, however. Further into its fourth paragraph, the Overview modifies its stance by allowing that, "In some instances, highest and best use may anticipate the market, provided the conclusion is reasonable, probable, and proximate". The Response does not go that far, preferring to note, at 7.4, that, "LVT is in accord with the 'benefit principle'. A tax based on land values is a payment for the advantages accruing to a site, and falls only upon values which can be enjoyed or realised, though levied regardless of the use that the beneficial owner actually chooses to make of them"; preferring to note further, at 9.1.4, that, "Site value assessments record increases and falls in value. Mostly these are gradual. Major changes are most unlikely to come as a total surprise"; and then to propose, at 10.2, that, " It is desirable to revise valuation lists annually. Much of this work will be amenable to statistical adjustment, but provision should be made for a major revaluation quinquennially." The point is also made at 3.2.6.

2.7.4 The difference between what U of U says and what the Campaign says at 2.7.3, above, does not at first glance appear likely to be of any great consequence in practice. The Executive, however, has, in the Outcome, interpreted U of U's wording more loosely than the Campaign suspects that the U of U probably intended, and certainly further than the Campaign itself allows. As already noted at 2.7.1, above, in both paragraph 109 and paragraph 110 of the Outcome, it is averred that LVT is based on “highest and best use” of land; but it is now necessary to record that, in paragraph 109, this statement is followed by the words “including its development potential”. This is not the case, or, more accurately, it is so in only some circumstances. It is true to the extent that a landholder who is in receipt of benefits which he has not yet elected to enjoy to the full, may later decide to do so and proceed to make optimum use of his land within prevailing planning and other constraints. It is not the case, however, that a local authority is empowered to issue tax bills to raise revenue against speculative “hope” value which it is not yet legally permissible for any user of the land to take action to realise. Of course, when change of use is allowed, the land value assessment will be altered accordingly – but not before! The Executive’s statement in its Outcome document may well have alarmed and misled the casual reader who had not previously considered attentively the submissions tendered to the Review.

2.8 Overview: Valuation assumptions – Exceptions to highest and best use

2.8.1 Opening paragraph. This is acceptable as a statement of fact, but it surely deserves comment in a submission forming part of a Review of this nature. The final reference in the paragraph is to “property categorisation or zoning coupled with differential rates”. The application of differential rates is an error, as the Response makes clear at 5.1.3: “All land in the same taxation area is to be subject to the same percentage rate of tax regardless of permitted use class, since the differences in use will already have been reflected in the valuations. Different rates of tax at this point would give rise to distortions in the property market”. This is so obvious that it is astonishing to find it so frequently missed.

2.8.2 Heritage buildings. The Campaign concurs. It has in fact taken up this point in the past – please see Appendix B to this Rejoinder for an illustration of this. The questions of character and heritage in towns and cities, to which reference is also made in paragraph 110 of the Outcome, are essentially matters for political decision. Economic consequences follow from heritage designations, and, as was recorded by the Campaign at 7.6 in the Response, LVT takes account of these. In addition, in its overall effect, LVT lessens some of the pressures considered undesirable. The choice of a system other than LVT for local government finance will not ensure absence of conflicts of interest in matters of this sort, and one must expect still to read of disputes over preservation or otherwise of old buildings.

2.8.3 Relief through special valuations. Special preservation/historic conditions have been covered in 2.8.2, above. The other "typical categories of property" listed here in the Overview are again matters for purely political decision. The Campaign does not support the fudging of issues by massaging valuations. If a proper decision can be taken and publicly accepted, it can be treated in essentially the same way as for heritage buildings, which is to say in the manner described in 2.8.2, above (with again the proviso that this is not a problem affecting solely LVT). One might, however, on wider political and social grounds, be less tempted to agree to special treatment for these other categories in the Overview list, and in any case the land values of the affected properties (*e.g.* residential land located in commercial or industrial areas) will already, in a LVT system, have taken account of and reflected the perceived advantages and disadvantages of the location.

2.8.4 Relief through tax postponement. Please see the general course of the arguments under 2.7, above. So far as the specific example in the Overview is concerned, the answer is that the land in question has no use higher than agricultural unless the landholder has the lawful opportunity to exploit it for residential, commercial, or industrial purposes. Some rural landowners already have the authority to rent out barns to construction enterprises for storage of building materials, or to small businesses engaged in upholstery and the like, in which cases UBR is payable. There is no problem with this. Even if farmland has permission for office blocks up to a height of 32 storeys, its optimum use may still be for rearing livestock and growing crops, and it is for the latter that it will be valued unless the valuation officer can produce a clamouring line of *bona fide* builders to prove the contrary. The last two sentences here in the Overview do not adequately describe circumstances in which postponement of taxes might be relevant. Does postponement mean postponed payment of taxes admitted and due, or a postponement of the date when they become payable after a free period? If the latter, is it the tax authorities who set the starting date, or is it the landholder? If the latter, why – and what of the public interest in the meantime?

2.9 Overview: Agricultural land

The Campaign has already, in the Response and in this Rejoinder, set out its views on how LVT affects agricultural land, both as regards optimum use within prevailing planning restrictions and comparable constraints (*e.g.* rights of way), and the consistent use of the same percentage rate of tax regardless of permitted use class. Other countries who operate local LVT systems may have double-counted, to 'relieve' owners of farm land as a conscious form of subsidy (but see Response, at 5.1.2 and footnote 11).

2.10 Overview: Planning issues

U of U has provided a useful snapshot of the present state of planning policy and procedure. The buying and selling of land, the mortgaging of land, the leasing and renting of land, have nevertheless gone on, to the apparent satisfaction of the parties involved, in spite of the difficulties the Overview has noted. As stated at 4.4 in the Response, LVT can be readily incorporated into the U.K. legislative and administrative framework. Its introduction might even spur planning re-thinks!

2.11 Executive summary

2.11.1 First bullet. See 2.3.2, above.

2.11.2 Second bullet. See 2.3.1, above.

2.11.3 Third bullet. See 2.3.2 and 2.3.1, above.

2.11.4 Fourth bullet. See 2.7 and 2.8, above.

2.11.5 Fifth bullet. See 2.9 and 2.8.4, above.

2.11.6 Sixth bullet. See 2.10, above.

2.11.7 Seventh bullet. "Overall, introducing a system of land value taxation to replace the current domestic and non-domestic systems would be difficult and not in line with international trends." The Campaign rejects this finding, and is disappointed that the Executive has decided to accept it.

Since when was it decreed that the policy of the United Kingdom as a whole and, within it, of Northern Ireland, has to be determined "in line with international trends"? The U of U finds LVT "conceptually sound" and discovers many practical virtues in its favour. Are they not reason enough to suggest bucking "international trends"? U of U thinks that introducing LVT "would be difficult", but baulks at listing the steps it thinks the Executive would find it difficult to take. It prefers to dive for the shelter of "international trends" like a rabbit to its hole.

2.11.8 The Campaign has found much to approve in the Overview, but has also noted an uncertain grasp of some aspects of the LVT policy. This may have been nothing worse than oversight and looseness of expression, but it has contributed to a lack of robustness in backing the evident support for LVT that, with patience, is in there to be found. "It is the right thing to do – but maybe safer not to do it, eh?"

3. CONCLUSIONS

3.1 The Campaign accepts that the Executive has decided not to pursue further the possibility of adopting a land value taxation system as an alternative to the current domestic rating system.

3.2 The reliance the Executive seems to have placed on the Overview it commissioned from the School of the Built Environment, University of Ulster, is open to question, for a number of specific reasons set down during the course of this Rejoinder. The U of U will no doubt have had full access to the Campaign's Response document, but evidently paid it scant attention and did not attempt to follow through the arguments therein.

3.3 The Campaign, in submitting its Response, expressed willingness to offer further evidence in writing or in person. It regrets not having had the opportunity to do so, particularly after having had sight of the Overview document.

3.4 The Campaign notes a recent trend that is developing in the land and property market in Northern Ireland, and is of the opinion that it will create problems which application of LVT could prevent. Detail on this, and illustration of the Campaign's prescience in raising awareness of the matter, are included at Appendix C, for information.

3.5 The Campaign has taken note, from paragraph 54 of the Outcome document, that the Executive had decided not to pursue a local income tax as an alternative to the current system, but has decided "to maintain a watching brief on developments in Scotland" and that therefore "the door has not been completely closed on this option at this stage".

3.6 Given the observations at 3.2, 3.3, and 3.4, above, and in the light of the Executive's evident willingness to take a pragmatic approach to possible reconsideration of a previously spurned alternative option, as evinced at 3.5, above, the Campaign hopes that the Executive will allow the LVT case a further airing in appropriate circumstances.

APPENDIX A

INCREMENT TAXES: PRACTICAL OBJECTIONS

A1 There are some who argue for taxes on what is called the unearned increment in land. This is a mistake. The ethical argument, and the argument in economic theory, for collecting all of the Rent of Land and against taxing only increments, do not need to be repeated here, but please see 2.4.1, 2.4.1.1, 2.4.1.2, 2.4.1.3, and 2.4.1.4, above.

A2 There are powerful practical objections to increment taxation.

A2.1 The political effort required to carry what, at best, is a half measure, is at least as great as that for full LVT.

A2.2 The administration involved is in fact greater. The work in compiling the initial "datum line" valuation for increment taxes is the same as is required for full LVT. The basic preparatory costs are the same, so are the procedures, and so is the time-scale. The half measure allows no initial saving.

A2.3 By definition, no payment demand can be issued until a pre-determined period has passed and a second valuation is conducted, involving yet more start-up cost.

A2.4 The gap between the valuations leaves a "carrying cost" against which there is no income and no tangible benefit for local taxpayers who presumably continue to pay on the old system. Meanwhile the opposition is able to campaign at leisure.

A2.5 Increment taxation is inherently unfair in application. At the first valuation after "datum line" day, two plots of domestic land (say) could be showing identical values. If one had not changed since the "datum line" valuation but the other had risen to attain equal value, the second would be taxed but the first would not. In the case of business properties, the user of the second site would be handicapped in meeting competition from the first: although users of both sites would be in receipt of identical land value, one would be allowed to retain his in full (unjustly, it has to be said) whilst the other was required to surrender part of his. It is one of the claims made for LVT that collection of land value in full removes location value from business calculations, enabling labour and capital to form corporate bodies to compete on that famous "level playing field". Increment taxes are a distortion of the LVT principle.

A2.6 The amount raised by increment taxes will be low at first, simply because most increments are likely to be small at that early point. This shortcoming will be exacerbated if the percentage levied on the increments is held down: there is no reason for it to be so, since these are, after all, increments, but anyone ill informed enough and timid enough to prefer increment taxes to proper LVT is unlikely to end his aberrant course here!

A2.7 Costs are higher than for proper LVT and the early yield is low. The small yield allows little abatement of existing taxes. The larger scale economic benefits from LVT scarcely begin to show.

A3 All land value is public, and none of it is private. The objective is not negotiable. The route does not lie through the increment thicket.

APPENDIX B

HISTORIC BUILDINGS AND URBAN REGENERATION

The following text is a Memorandum by the Land Value Taxation Campaign *given as written evidence to a Committee of the House of Commons in 2003 and reproduced here as an extract complete in itself apart from omission of section 4.*

House of Commons
ODPM: Housing, Planning, Local Government and the Regions Committee

The Role of Historic Buildings and Urban Regeneration

HC 47–II Written evidence

Ordered by The House of Commons to be printed on 17 December 2003

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Memorandum by the Land Value Taxation Campaign (HIS 38)

A. Replies to the Questions

The Campaign wishes to respond to just one of the questions: What fiscal and legislative changes should be made?

1.1 The Campaign would wish to see a shift from existing taxes to Land Value Taxation (LVT) for numerous important political economic and social reasons. In this overall picture, a relatively minor benefit is that it would give crucial support to policies for the protection of historic buildings and creation and enhancement of public spaces. LVT would both assist conservation positively and allow the removal of existing taxes that actively work against the preservation of our historic buildings and environments.

1.2 The present tax system is highly detrimental to building conservation and repair. All taxes on such work ultimately have to be paid by the owner of the building, including VAT and taxes paid in the first instance by the builder, including income tax and employees' and employers' National Insurance contributions, and vehicle fuel duty. These taxes comprise about 45% of the cost of the works. The problem is aggravated because a substantial proportion of the tax is charged on labour inputs, and work on old buildings is by its nature labour-intensive.

1.3 The situation with regard to VAT and listed buildings is perverse, in that new work is exempt but repairs are subject to the tax. This does not encourage owners to protect historic features of old buildings – on the contrary, it is an incentive to destroy.

1.4 LVT would actively promote conservation, both in urban and in rural areas. This may be seen by considering how LVT would operate in relation to Conservation Areas. Local planning authorities have a statutory duty to identify and designate as Conservation Areas those locations which it is considered should be preserved and enhanced. Within Conservation Areas, consent is required for demolition, and planning applications for new development are submitted to specialist advisory committees.

1.5 Unfortunately, legislation has had only limited success in preventing the destruction of historic areas, and the erection of harmful developments. In some cases, owners of listed buildings have neglected them to the point where demolition has become the only option, and have then exerted pressure on local authorities for consent to redevelop and intensify the use of their sites. In other circumstances, pressures for relaxing conservation provisions have built up because land values were approaching a peak in the boom-slump cycle.

1.6 LVT would increase the protection given to designated historic buildings and areas, and trees protected by preservation orders, because it would reduce the pressure for development within them. Valuations would reflect the advantages and restrictions of such designation, and because the tax would be payable regardless of whether the building was in use or not, the neglect of listed buildings mentioned in the previous paragraph would become uneconomic.

1.7 A system of LVT would therefore automatically compensate for any economic disadvantages from having to protect particular buildings, trees, or wildlife habitats, or sites of archaeological importance; with LVT at a sufficiently high rate, owners would have no incentive to overturn the protected status of their land.

B. Further Explanatory Comments

1. Aims of the Land Value Taxation Campaign

1.1 The Land Value Taxation Campaign is a non-party organisation which was established with the aim of securing legislation which would fundamentally change the basis of public revenue in the United Kingdom. It proposes that existing taxes on wages, goods and services should be progressively replaced with a property tax on the rental value of all land. This is referred to as land value taxation (LVT). The policy advocated by the Campaign would ultimately secure 100% of the rental value of land[44] for the Exchequer, but it is recognised that, as with any radical change in the tax system, a transition period would be desirable. The Campaign therefore accepts that the introduction of LVT would be phased in a series of deliberate steps.

1.2 Although the Campaign was established to promote the case for a national land value tax, we would point out that, as is the case with all forms of property tax, LVT is suitable for all tiers of government and could be readily adapted to any multi-tiered structure including devolved bodies in Scotland, Northern Ireland, Wales, London, and any future English regional assemblies, as well as existing local authorities.

2. Summary

2.1 Existing taxes act as a deterrent to the repair of old buildings.

2.2 By imposing a cost on land holding, LVT would encourage owners of historic buildings to keep them in optimum use, or to pass them on to somebody else who would do so.

2.3 But because land value tax assessments would automatically reflect restrictions on the use of land resulting from designation of the land itself or structures upon it, a system of LVT would therefore automatically compensate for any economic disadvantages from having to protect particular buildings, trees, or wildlife habitats, or sites of archaeological importance; with LVT at a sufficiently high rate, owners would have no incentive to overturn the protected status of their land.

2.4 To promote policies designed to protect historic buildings and enhance urban spaces, the Campaign therefore urges that all land in the United Kingdom should be valued frequently and accurately, in accordance with its optimum use within the current planning regulations, and made subject to an *ad valorem* land value tax, with existing taxes being phased out as quickly as practicable.

3. The Compensation/Betterment Mechanism Inherent in LVT

3.1 Under a system of LVT, the valuation would be based on the full rental value of the site, at its optimum permitted use. Thus, increases in land value (betterment) arising from planning decisions such as the creation and enhancement of urban spaces would automatically be collected as a revenue stream, along with existing land values and betterment arising from all the other causes which influence land values.

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44 The term land is used here not in its legal sense but is given its meaning as defined in political economy, ie “that part of the material world other than human beings and the products of their labour”.

3.2 Furthermore, the system would contain a built-in compensation mechanism. Where the value of land was depressed by – for instance – planning blight, traffic noise, or the presence of listed buildings or other restrictions on its use, this would naturally be reflected in the valuation, and the landowner would be relieved accordingly.

3.3 Thus, LVT is a payment for benefits actually received, and falls only upon values which can be enjoyed or realised. If planning restrictions prevented more intensive or rent-enhancing use, eg requiring preservation of a building or other structure, or limiting a piece of land to use as a golf course, or for agricultural purposes, the land value would be assessed accordingly. The introduction of LVT would not conflict with the existing system of planning controls; on the contrary, it would greatly reinforce the planning process by removing, or at least reducing, the financial incentive for overturning restrictions on development contained in existing statutory plans, such as listing and Conservation Area designation.

4. For Further Information

[Some of the information being now outdated, this section has been omitted]

5. Appendix

The Royal Infirmary Edinburgh: A Case History

"Although the Royal Infirmary sits in the very centre of the capital, and covers 25 acres in a prime area for redevelopment, the site, which could be worth £50 million, is unlikely to be sold for more than £10 million" (George Hume, "The Herald", 14 January). "The factor acutely depressing the value of the site…is a battery of A and B category listings by Historic Scotland on buildings covering almost the entire hospital. Demolition is out of the question". The main block was completed in 1879, but there have been numerous later additions. In the circumstances, refurbishment is the order of the day, for whatever uses can best be made of the different parts.

If LVT were fully operating, the listed site would yield, say, £0.5 million per year. The cleared site would bring in £2.5 million. The brutal question facing politicians, planners, and public would be whether preserving the Royal Infirmary buildings is worth foregoing £2 million per year. Looked at the other way round, with LVT fully operating and site rental revenue replacing presently levied taxes, the occupier of Edinburgh's Royal Infirmary location would be assessed on the assumption of optimum permitted use. If the present structures have to be preserved, he would pay £2 million per year less than if he had a free hand. This is compensation for following public policy. He would receive no rebate if he were to allow a building to fall into disrepair – still less if he were to vandalise it so as to render it unusable! Thus he would have every incentive to preserve the property in top order and maximise his income from it, which is presumably what Historic Scotland wishes.

Henry Law, Hon. Secretary,
Land Value Taxation Campaign

APPENDIX C

NORTHERN IRELAND TO-MORROW: WHITHER THE PEACE DIVIDEND?

C1 *The following is extracted from an article by Joan Conway which appeared in the "Financial Times" House and Home section on 29th. March 2008. The article centres its attention on the Ormeau Road and the area around it in south Belfast.*

It's a far cry from the heights of the Troubles in the 1970s…Times have indeed changed since then in many ways. The country has experienced some of the highest rises in property prices across Europe, according to a report by the UK's Royal Institution of Chartered Surveyors last year. The cost of property increased by an average of 36 per cent in 2006, more than three times the figure for the UK as a whole. But around the Ormeau Road, prices rose by at least 50 per cent during this time.

[An estate agent] initially noticed a change in the area in 1995, after the first ceasefire. "A lot more outsiders started moving into the area"…He has lately seen a steady stream of professionals coming to live in the district, such as barristers, doctors and accountants.

[Another estate agent] says there has been an upsurge in the buy-to-let market. "We've had a lot of investment buyers in the past five years," he says. "The area draws a good-quality tenant. There's a big Polish community as well as those from other east European countries so there is a huge demand for rental property."

The rush for properties in this area is symptomatic of the general buzz around Belfast. "There was a time when pubs and bars around Belfast, even on the Ormeau, would close at 9pm because people were afraid to go out for fear of bomb threats", says [the first estate agent]. "These days, even mid-week, you see crowds out and about in the centre just enjoying themselves and having a great time."

C2 *The Campaign produces a regular bulletin, "Practical Politics". The following combines two pieces which appeared in Issue No. 8 (March 1990).*

It is over 20 years since the start of the present Troubles. We all fervently hope they may end soon. What prediction can we make for when they do? We may be confident that tourism will receive a great boost (there were over one million visitors last year, compared with just 400,000 in the mid '70s) and there is every likelihood of a demand for second homes and retirement homes. All of this will be additional to the spur to business development which would come with settled conditions and both internal and external confidence.

It does not take much to see how all this will benefit the owners of land in Northern Ireland. Land values will rise when peace returns. What then? A lot of people are going to be very unhappy when they find decent housing priced out of their reach; when the cost of taking a shop, setting up a little business, or acquiring a smallholding rises beyond their means. Those who have come over to Britain from the Province will not be attracted back if it means losing the chance to maintain or improve their standard of living. Incomers who want to share the beauties of the country at week-ends, on holidays, or in retirement, will attract the animosity of some of the local people – most of it misplaced, true, but that will be little consolation to either the one or the other.

Monopolising space certainly beats working for a living or taking risks with capital, but the rising expectations of landowners will both cream off the benefits of progress and tend to retard the growth of economic activity. There will be disappointment, discontent, perhaps even social and political disaffection. Hopes, after all the years of strife, will rightly be high, but for peace to mean real prosperity there will have to be a radically new fiscal policy in the Province.

The concentration of population, the level of economic activity, and the extent of public and private investment, have all gone to enhance the value of land around Belfast. The owner of an acre in the Belfast area cannot be said to be deserving of the income he can draw from passive proprietorship of part of the earth's surface; and, although the owner of an acre in Fermanagh or the Glens of Antrim or near Larne may bemoan his ill luck in being able to command so much less than his opposite number in Belfast, he can still demand a ransom of labour and capital for the right to set to work to create the real wealth of the Province.

The case for collecting land values in place of existing taxes is being made in our newspapers and magazines every day of the week.