LAND VALUE TAXATION CAMPAIGN

RESPONSE TO

NORTHERN IRELAND EXECUTIVE REVIEW OF DOMESTIC RATING REFORM, 2007

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PREFACE

P.1 The Land Value Taxation Campaign ("the 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 by a property tax on the rental value of all land[1]. The key proposition advanced by the Campaign is that public revenue be raised throughout the United Kingdom[2] by the method known historically as land value taxation ("LVT")[3]. 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.

P.2 The Campaign has published a paper, *"Options For Local Government Finance: the case for land value taxation"* (February 2005), which shows how a local government approach to national LVT is possible and how it might be achieved. The issue is also the subject of another Campaign paper, *"Land Value Taxation And Local Government Finance: central collection or local?"* (Occasional Paper No. 3, December 2003).

P.3 There have been two recent inquiries into local government finance, one by Sir Michael Lyons covering England (final report dated March 2007) and the other by Sir Peter Burt (report dated November 2006) covering Scotland. Whilst neither went so far as to recommend LVT, both reports gave the principle and the policy rather favourable treatment (as noted in Issues Nos. 153, 154, and 156 of the Campaign's regular bulletin, *"Practical Politics")*. The Campaign submitted written responses at three different stages of the Lyons Inquiry and gave oral evidence in 2005.

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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", fixed hereditaments), the Campaign uses the word in its meaning in political economy (the whole of the material universe apart from man and his products). A landowner need not necessarily be a freeholder. 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.

2 The Campaign prefers to implement LVT centrally, for macro-economic and administrative reasons.

3 In the local government context, LVT is sometimes referred to as site value rating.

P.4 In this submission, the Campaign will comment only on matters that it considers lie within its own area of competence. The Campaign does not believe that LVT can, of itself, solve all the problems of local government or even of local government finance. Some of the reasons are set out in Occasional Paper No. 3 (see P.2, above). What the Campaign does nevertheless maintain is that LVT substantially facilitates solutions and is, indeed, a prerequisite.

P.5 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). For the purposes of the present Review, the Northern Ireland Executive has directed that respondents submit comments in two parts:

(a) modifications to the domestic rating system that are thought capable of being implemented in April 2008;

(b) changes for adoption in the longer term.

The present submission does not specifically examine possible short term modifications. On the other hand, a number of the observations made on longer term opportunities will, it is expected, have implications for some, at least, of those put forward for short term consideration.

Throughout this submission, the Campaign's general references to local government and to local authorities stand for "local government/district council" as in 13(iii) of the Executive's Terms of Reference, unless otherwise qualified.

P.6 The Campaign produced a paper in February 1999, *"Northern Ireland – Overcoming The Odds"*, which set out the problem faced by those located at the geographical and economic margin, and explained how it could be overcome. It is included here at appendix H. It would be preferable if the Parliament at Westminster and HM Government were to adopt LVT throughout the U.K., but, failing this, there is good reason for Northern Ireland to seek to go it alone if it has to. In such an eventuality, the Campaign is confident others will rush to follow.

1. THE NEW DOMESTIC RATING SYSTEM

1.1 Domestic properties are discretely assessed on the basis of the composite capital value of the land plus the building and other fixed improvements.

1.2 The Burt inquiry on local government finance in Scotland (see P.3) recommended essentially the same system in its report to the Scottish Executive, although it has to be added that its suggestion of what it called a Local Property Tax was summarily rejected.

1.3 Advantages of the new domestic rating system are:

1.3.1 Administration is relatively easy.
1.3.2 As is the case with all forms of property tax, the new system is readily adaptable to suit any or all tiers of government.
1.3.3 Ensuring compliance is straightforward: avoidance and evasion are extremely difficult.

1.4 Disadvantages of the new domestic rating system are:

1.4.1 Without a system of equalisation payments, the tax is regressive across local authorities, with the lowest rate poundages found in areas where a goodly clutch of the most expensive properties is situated. In some local authority areas, by contrast, there is a preponderance of lowly valued properties which have to carry a greater share of the burden.
1.4.2 Without frequent and regular revaluation, up-to-date values will diverge from the assessments. This is true of whole areas, and of individual properties or groups of properties within areas.
1.4.3 Over time, there is a clear tendency for land values to rise more rapidly than the values of buildings, especially in housing “hot spots”. This is inevitable in a composite rating system, and it underlines the need for frequent revaluation, to reflect changes in the relative purely locational advantages of properties.
1.4.4 Non-use or under-use of land is rewarded. Additional improvements attract higher rates – the better the quality of the improvement, the greater the rate.
1.4.5 It is a loudly-voiced complaint that a property tax causes hardship to those who are “asset-rich but cash-poor”. This is discussed in appendix F.

2. OPTIONS FOR REFORM

2.1 The main options for longer term reform currently being canvassed are:

2.1.1 Banding (as for council tax).
2.1.2 Income tax varying powers (as in Scotland).
2.1.3 Local income tax.
2.1.4 Poll tax.
2.1.5 Local sales tax.
2.1.6 Tourist tax.
2.1.7 Road charging.
2.1.8 Land value taxation.

2.2 It is difficult to see what could be gained by adopting reform 2.1.1, **banding**. All the disadvantages noted at 1.4, above, remain. Further issues arise:

2.2.1 Banding leads to fortuitous advantages and disadvantages for those with properties whose value is close to the step from one value to the next. This makes it likely that the initial allocation to bands will give rise to large numbers of appeals, as will subsequent revaluations.

2.2.2 The Burt inquiry studied the workings of the council tax in Scotland in detail[4]. Scotland's 2.26 million domestic properties were put in eight bands, based on the assessed capital value (selling price) of the dwelling and the site it is built on. About half are in the two lowest bands, A and B. Only 4% are in G and H, the top bands. A multiplier is applied, band by band, such that the charge on a property in the top band is three times that on the lowest. Interestingly, the report finds a general relationship between income and the property occupied. Burt's overall verdict, however, is that the council tax is not progressive enough. Considering the multiplier to be perhaps too shallow, Burt examined possible modifications. Studies show that, counter-intuitively, adding two bands at the bottom of the range and two more at the top, has very little effect on the burden of the tax. Computer simulations, made raising the multiplier from 3, even to as much as 42, do not confer significant benefit to most council tax payers, whilst hurting substantially the losers at the top end. Burt regards the multiplier process as purely arbitrary. This suggests to the

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4 The findings are recorded in sections 12 and 13 of the report, and, *passim* but significantly, also in section 14.

Campaign that in any local authority area deviating at all significantly from a perfect property balance, the resulting skew will be deemed unacceptable.

2.3 The Scottish Parliament has the power to raise or lower the rate of income tax in Scotland by up to 3p in the £, but, to date, it has chosen not to exercise it. A proposal was in fact brought forward at one time to make use of the Edinburgh Parliament's power to **vary income tax above the level applying elsewhere in the U.K.**, for the purpose of reducing the uniform business rate in Scotland; but examination revealed many difficulties, and the move (in effect, reform 2.1.2 in a Scottish context) was rejected. The complexities are essentially those met in considering a local income tax – see 2.4, below.

2.4 Burt inquired into the viability of the **local income tax** option (reform 2.1.3) and flatly rejected it[5]. The Campaign has also consistently exposed the fiscal and administrative drawbacks of such a proposal[6]. The disadvantages are:

2.4.1 Income tax is claimed to be related to "ability to pay". In practice it is not. Avoidance and evasion are rife. The system is riddled with loopholes which enable those who can afford to pay for the necessary expert advice to reduce their liabilities. Furthermore, at its worst "ability to pay" is a spur to dishonesty and idleness. The Campaign takes the view that taxation should be based on the benefit principle. This is explained at appendix D.

2.4.2 The cost of supplying basic services to a residence – such as fire fighting and police cover – varies little with the numbers in a household, or whether they are earners. The cost of refuse collection is only marginally affected by the size of particular households, for the major expenses of providing the service are fixed costs to the local authority.

2.4.3 Consider three similar houses on three similar plots in one street. In the first are four adults, perhaps parents and grown-up children, all working and paying taxes. They make little demand on council services, having little time to use facilities such as libraries, parks, leisure centres, or adult education classes. In the second are two adults who do not work but make full use of all of these facilities. In the third are two adults and two grown-up children, all claiming benefits and supplementing them by casual cash-in-hand work and petty

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5 Burt's observations, detailed analysis, and conclusions are to be found in Section 9 (sub-sections 4 to 40) and Section 10 (all 24 pages) of his report.

6 Notably in its paper, "Options For Local Government Finance" (February 2005), and in its regular bulletin, "Practical Politics".

criminal activities. Where is the fairness of a local income tax as it would apply to these three instances?

2.4.4 It would be necessary to maintain an accurate register of taxpayers' addresses, and it would, indeed, be necessary to establish a definition of what constitutes residence.

2.4.5 Experience with the community charge (poll tax) showed that there are problems in linking taxation to place of residence. The total amount of tax payable could differ substantially across local authority areas. This would provide an incentive to avoid, and would also give rise to problems of ensuring compliance. In addition, therefore, to the instances of avoidance and evasion currently incurred with collecting income tax, the additional local element could be vulnerable to avoidance through use of "addresses of convenience", by registration where the rate of tax is lower.

2.4.6 Complications would arise when taxpayers live in one tax area and work in another, especially if the place of work is outside Northern Ireland (possibly elsewhere in the United Kingdom, or indeed even outside the U.K. in, say, the Isle of Man or the Republic of Ireland). In the U.K., income tax is often deducted by employers, at source, through the PAYE system. Provision would have to be made for employers to identify by home address the appropriate income tax rate for every employee, make deductions accordingly and ensure that HM Revenue and Customs was correctly paid, whilst the latter would have to remit the correct amount to the appropriate local authority. Any conceivable administrative procedure will be clumsy, costly, and time-consuming to employers, HMRC, and local authorities alike, especially in relation to the sums involved.

2.4.7 Unincorporated businesses would contribute, but incorporated businesses would not. The tax would, by definition, not provide for contributions from companies to local revenue (other than through the non-domestic rate, which is also payable by unincorporated businesses of course). This would discriminate against sole traders, partnerships, and small businesses not registered as companies, whose profits are distributed as wage income rather than as dividends.

2.4.8 Non-domiciled residents, who may be very wealthy, enjoy partial exemption from U.K. income tax.

2.4.9 The decline of regular full-time employment, together with moves towards self assessment, imposes growing strains on the income tax system. Its long-term future must be in some doubt.

2.4.10 Differential tax rates within different parts of the United Kingdom would influence where people chose to live and work, with consequent effects on regional economies. Property values would eventually come to reflect these differential tax rates, so that a local income tax would in effect act as a property tax at one remove, given that the difference in tax liabilities would ultimately be reflected in house prices on the two sides of a boundary.

2.4.11 The tax would be "lumpy": small variations in the tax rate would produce relatively large variations in yield, causing problems for local authority treasurers when setting budgets.

2.4.12 The yield would be unpredictable. Incomes within a local authority area cannot be forecast accurately, and would presumably have had to be estimated by reference to the past year's income. The failure of a major employer could lead to a large shortfall in revenue.

2.4.13 Because earnings per head in many local authority areas are relatively low, the yield would inevitably be restricted. The administrations affected would need some form of grant or equalisation payment to boost their revenue requirements.

2.5 A **poll tax** is essentially an ungraduated local income tax, and is therefore open to many of the objections set out at 2.4, above. It is particularly vulnerable to the movements of transitory populations. The costs of pursuing defaulters for relatively small sums are likely to prove unacceptably high. In practice, evasion is rewarded and the shortfall is transferred to the shoulders (or, rather, the wallets and purses) of the more honest citizens. In Great Britain, the short-lived community charge was made administratively more complex by the exemptions and rebates entailed. Reform 2.1.4 is not recommended.[7]

2.6 Reform 2.1.5, **local sales tax**, has the following disadvantages:

2.6.1 It would be seen by the EU, which (it will be recalled) has a vested interest in such matters, as an alternative and rival to an increase in VAT. This would be particularly true if goods sold free of VAT were to be included in the sales tax.

2.6.2 The tax would be "lumpy": small variations in the tax rate(s) would produce relatively large variations in yield.

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7 The Burt inquiry was not impressed by suggestions of a move away from property taxes to taxes on the person, such as local income tax or a poll tax. Issue No. 154 of *"Practical Politics"* (February 2007) extracted and commented upon the following (the references in brackets are to the Burt report itself, and the words in quotation marks are taken from that report):

"Property taxes can be seen to be 'fair' and progressive, because there is a correlation between property values and ability to pay. Evidence suggests that, where this correlation does not apply, it is more likely to arise from households on higher incomes living in lower-priced homes than vice versa" (1.14). "Replacing a tax based on property" with a tax on income could "result in property values rising, stimulating house-price inflation" (9.86).
One piece of evidence given to the Inquiry noted an extreme shortage of affordable housing in St. Andrews, blamed on the council tax exemption for properties occupied solely by students. "This exemption in practice benefits landlords…rather than students themselves" (14.25).

2.6.3 People habitually shop in local authority areas other than where they live. How is their expenditure to be allocated to their own area?

2.6.4 Differentials in local sales tax rates will promote cross-border and mail order shopping.

2.6.5 The tax will create difficulties in pricing stock, especially for multiple stores.

2.6.6 Numerous administrative difficulties are foreseeable. Who would collect the tax, what (for this purpose) defines the effective point of sale, and how would the revenue be remitted to the local authorities?

2.7 A **tourist tax** (reform 2.1.6) has numerous practical and administrative disadvantages:

2.7.1 Burt and Lyons both reviewed this option. Whilst both refrained from dismissing it totally, neither did more than make the most reluctant of nods in its direction[8].

2.7.2 There would be difficulties in administration and over the compliance costs incurred.

2.7.3 A tourist tax would damage tourism and all engaged in the tourist trade. It would, at best, divert tourists to areas where no such tax applied or where the applicable rate was lower.

2.7.4 Visitor attraction to a location is reflected in the enhanced site value of such as hotels, restaurants, shops, and places of culture and entertainment: all would be worth less if tourist numbers dropped. In effect, visitors bring their land value with them. The Campaign argues that LVT will pick up the land value arising from tourism along with land values attributable to other causes – at no extra cost and with no extra fuss.

2.8 Types of **road charging** (reform 2.1.7) already exist. One such takes the form of vehicle road licences. These are in effect an "entry fee", giving those who hold a valid driving licence the right to take a duly licensed vehicle on to public roads. Thereafter motor vehicle fuel duties act as a rough-and-ready method of pay-as-you-go charging. Car parks, both public and private, frequently charge for their usage. Occasionally, as in parts of London, there is a formal congestion charge in operation at certain times. There are also instances of toll roads, toll bridges, and toll tunnels. Two observations follow:

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8 The Burt inquiry limited itself to a grudging "maybe" for the City of Edinburgh, and then only in peak season.

2.8.1 Some sympathy for gropings of this sort may be allowable. Whether road pricing using satellites and advanced information technology appeals or not (multiple rates of charging on different roads and on different sections of the same road at different times of day and on different days, and all according to different vehicle types), must depend on faith in a capacity for cost control and the efficacy of large IT projects.

2.8.2 Roads, like other forms of infrastructure, bring advantages (and occasional disadvantages) to all within the areas they serve. Devices such as tolls mean that those who make direct use of, say, a new road, tunnel, or bridge, do make a contribution towards the costs of construction, operation, and maintenance. There are many more, however, who draw benefit without having contributed in any way by means of work or provision of capital. Such gains are reflected in enhanced land values. The Campaign argues that LVT will pick up the land value arising from improvements in the road system, along with land values attributable to any other cause.

2.9 Having pointed to severe drawbacks in attempting to localise sales and income taxes, the Campaign asserts that local government services should continue to be funded from property taxes. It suggests, however, that the defects noted at 1.4, above, will be overcome if the assessments are based on annual site rental values alone, setting out thereby towards adoption of full **land value taxation** (reform 2.1.8). It is suggested that steps then be taken to bring the non-domestic rate on to the same basis of site rental value alone, and to carry this to the top level of devolved authority in Northern Ireland by arranging for the Executive itself to levy by precept. The proposal and its implications are discussed in fuller detail in the sections that follow.

3. ADVANTAGES OF LAND VALUE TAXATION

(A PROPERTY TAX ON SITE VALUE ONLY)

3.1 A range of general claims for LVT is set out in the Campaign's introductory leaflet on the subject, *"What Is Land Value Taxation?"*, the text of which is reproduced in appendix C. Land value taxation is defined in appendix A, and site value assessment is defined in appendix B. LVT as proposed by the Campaign, preserves the main advantages of the new domestic rating system:

3.1.1 Administration is relatively easy.
3.1.2 Ensuring compliance is straightforward: avoidance and evasion are extremely difficult.
3.1.3 LVT is readily adaptable to suit any or all tiers of government.

3.2 Conversion to site value assessment offers a number of immediate benefits:

3.2.1 Valuations are less costly. Buildings and other improvements are disregarded in the valuation of each plot in turn (although the surrounding area is taken to be as currently found).
3.2.2 Except possibly in special cases, inspection of individual premises is unnecessary.
3.2.3 Fewer appeals are generated when valuations are revised.
3.2.4 Improvements are not penalised. Neither the replacement of an old building by a modern structure nor the addition of an annex affects the assessment. By contrast, allowing a building to fall into serious disrepair no longer earns a lower assessment.
3.2.5 The owner of vacant or under-developed land is given an incentive to develop, to secure an income stream from which to meet the LVT demand.
3.2.6 With no need to inspect individual premises, valuations could be revised frequently, indeed annually, mostly by statistical adjustment, with substantive revaluation quinquennially (or earlier where major local changes occur).
3.2.7 All land in domestic use (including dwelling quarters on farms, or on commercial or industrial premises) together with all land allocated to development for the construction of dwellings (assuming planning consent to have been given) is included in the assessments. [As land in other classes of use is brought in at some point in the future, it is important to apply the same percentage rate to all land in the same area, to avoid land-use distortion. The differences in use class will already have been taken into account in making the valuations.]

3.3 Rental values are stable, unlike capital values, which are volatile.

3.3.1 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, forecasts of monetary inflation, expectations of the performance of the land market, and, indeed, hope of changes of planning consent to permit higher-value use. All this makes capital values unstable, because the land market is liable to be disrupted from time to time by speculation and waves of frenzied buying – often followed by collapse. Capital values are thus an unreliable measure of the current use value of the land.

3.3.2 Capital values are reduced by the very action of introducing LVT, since the basis of selling price is a function only of that part of the rental income that the owner is able to retain for himself. Whilst allowance can be made for this by capitalising the land value duty and adding it to the residual capital value of the land, it is a procedure that the public might find confusing. This issue of capital value *versus* rental value is discussed further in appendix E.

3.4 LVT could well be introduced at national level. For the purposes of this document on local government finance – in fact on only the domestic rating aspect of local government finance – the Campaign has emphasised the option of initiating LVT in a limited, local government context. It is possible to obtain some of the benefit from LVT even by holding back at this point. The Campaign, however, is urging the long term aim of phasing out present taxes on labour, capital, and their products, in favour of LVT, fully and properly applied in a series of deliberate steps. The abatement and replacement of existing taxes has far-reaching advantages:

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

3.4.2 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.

3.4.3 The land market is more efficient. The requirement to meet the LVT demand obliges landholders to develop vacant and under-used land properly or to make way for others who will. This is of particular benefit to small businesses, small-scale farmers, and market gardeners.

3.4.4 Urban sprawl is strongly discouraged. Because LVT deters speculative land holding, dilapidated inner-city areas are brought back in to good use, reducing the pressure for building in surrounding rural areas. This has the further advantage of reducing the need to extend public and private facilities and services out over an extensive area at considerable extra cost.

3.4.5 The demands on administration are lower. 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 will become relatively simple.

3.5 The taxation of land values has a sound basis in ethics. 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 social and natural benefits and advantages. A tax on land values thus returns to the community the value that the community creates.

4. PRACTICABILITY OF SITE VALUE ASSESSMENT

4.1 This system is in use in a number of places, including some Australian states and several towns in Pennsylvania, U.S.A. In 1989, a thorough report recommended its continuation in Brisbane[9]. This was accepted. Copies of the summary of the 1989 Brisbane report (deliberations and findings) are available from the Campaign on request.

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, with the aim of determining the practicability of assessment of

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9 Summary of the Report of the Committee Of Inquiry Into Valuation And Rating under the chairmanship of The Hon. Sir Gordon Chalk, K.B.E., LL.D., Deputy Premier and Treasurer of Queensland 1965-1976 (September 1989).

land value for the purposes of land value taxation or site value rating. No particular difficulties were encountered. Using the 1963 data as a starting point, the Whitstable valuations were revised in 1973 in a follow-up study also conducted by Wilks, this time for the Land Institute. Again, no particular difficulties arose, and the report commented on the relative ease of the task as compared with the rating 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. On both occasions, Wilks produced rental value assessments.

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

4.4 LVT can be readily incorporated into the U.K. legislative and administrative framework. The London Rating (Site Values) Bill of 1938-1939 is a model. Copies are available from the Campaign on request. Clearly, details will need to be up-dated and provision made to conform to the provisions and practices of Northern Ireland law.

4.5 Property taxes are particularly suited to the uses of information technology. Computer-aided valuation techniques such as use of General Information Systems make it possible to undertake valuations at much lower cost[10].

5. IMPLEMENTATION

5.1 The scheme proposed could be implemented at any time. It should be achievable in stages at no extra cost or even with a small saving:

5.1.1 No substantive changes are made to the new domestic rating system. Instead, there is a valuation of all land occupied by, or with full planning consent for, residential development, the assessment to be on site values only, disregarding the value of all dwellings and other improvements on each site in turn, but taking all neighbouring properties to be in their actual state of development as at the time of the valuation.

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10 "We acccept that with the greater use of computer-aided valuation techniques it may be possible to undertake valuations at a much lower cost" – Lord Bassam (*Hansard*, 27th. June 2003).

5.1.2 Arrangements are made for the subsequent non-domestic revaluation to be based on site values only and to include agricultural land[11] and vacant land not already covered in 5.1.1, above.

5.1.3 On completion of the stage described above in 5.1.2, a multi-part land (site) value tax (or rate) is introduced. 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, some of which could run contrary to the aims of planning authorities.

5.2 There is no problem in drawing up general guidelines for how further progress might best be made from this point. The most significant factor now becomes how helpfully and willingly Central Government in Westminster and Whitehall co-operates with the Northern Ireland Executive. If Great Britain were to have adopted LVT or to be on the brink of doing so, the way ahead for Northern Ireland seems to be clear. If, however, HM Government gives little priority to negotiating suitable financial arrangements between itself and Northern Ireland, then difficulties and delays might be expected to arise.

5.2.1 The next step after 5.1.3, above, is to make arrangements for the Northern Ireland Executive to draw its own revenue requirements from LVT, by precept. Many services are provided by local authorities to Northern Ireland standards and general requirements, and it is suggested that these also be funded from the Executive's precept. To the extent that the services are provided to general U.K. standards, the costs of these too might be covered by the Executive's precept, with appropriate financial recognition from the central government.

5.2.2 Ideally, the whole of the United Kingdom would be moving towards a full LVT régime. LVT is to be a replacement for existing taxes on the person and on goods and services (goods as capital as well as goods for consumption). If the U.K. and its component parts are indeed moving together, the process of tax replacement presents no problem.

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11 Tax concessions and the right to subsidies are capitalised in the price of agricultural land. Conversely, their withdrawal 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 full LVT régime, marginal land used for farming, by definition, escapes payment altogether, as of course do crops, livestock, and all buildings, walls, fencing, machinery, and implements. LVT is to be in replacement of other taxes, from which all users of all land can expect to benefit.

5.2.3 It is less straightforward if Northern Ireland is progressing well on the road to LVT, but England, Wales, and Scotland are still at the post. LVT is a replacement tax. What taxes will HM Government lift from the citizenry of Northern Ireland, in return for their meeting their own needs locally from their own land value? The Campaign has noted (above, on several occasions) that in tax matters there is difficulty in making clear connections between persons and addresses, and in determining where money wages have been earned. The same difficulty can arise over the origin of goods. Abatement of corporation tax on the profits of a company registered in England but conducting some of its trading in Northern Ireland could also be administratively complex. The writ of the Northern Ireland Executive can not always be made to run outside its borders without the consent of HM Government.

5.2.4 The Campaign wishes to lay out the clear economic and social gains to be had from adopting LVT and operating it in its fullness. There is essentially no problem in meeting local government requirements in place, first, of the new domestic rating system, and, subsequently, of the non-domestic rate too. The major gains, however, are likely to come from the final phases, extending LVT to cover all Northern Irish needs. A difficulty then arises if, but only if, Northern Ireland finds itself inside a U.K. where Great Britain is not moving in the same direction. How does one contrive to replace taxes over which one has only limited influence, where control lies in Westminster and Whitehall? The Campaign does not wish to hide the problem. Political savvy must be the answer, until the merits of LVT are so overwhelmingly obvious that Great Britain wants to enjoy the same range of benefits too.

5.3 There are powerful vested interests who will oppose the introduction of LVT. Though few in number, they will misrepresent the proposal as a widespread threat, especially to domestic owner-occupiers, the great majority of whom will in fact benefit from the reform, even if it does not progress beyond the local government stage described above, in 5.1.1, 5.1.2, and 5.1.3. For the most part, the “losers” will be those who have held land (valuable land, particularly) out of use, or who have poorly developed properties that have not been using the advantages of the site to full and proper effect.

5.4 Single-occupancy relief is not advisable, even as a transitional arrangement. It encourages under-occupation and is vulnerable to avoidance and evasion. In general, a property tax based on site value assessment only, imposes less of a burden on single occupants than a tax based on the composite value of land and buildings: properties in single occupation tend to be flats and small houses in which the land value is a smaller proportion of the total property value than is the case with larger residences suitable for families.

5.5 To the extent that pensions and benefits are index-linked and tied to housing costs, this ought largely to compensate for any possible increase in the property tax burden of the retired[12]. Where unusual hardship may arise (for others as well as pensioners), means are available to assist in special cases without prejudicing the general rights and interests of the community. These issues are not, however, examined here for reasons of space and overall balance. See, however, appendix F.

5.6 If LVT were to be introduced centrally throughout the U.K., there would be a strong case for beginning with a percentage levy set to yield a sum large enough to permit a worthwhile reduction in existing taxes, to benefit the public as a whole. One such move could well be the immediate raising of income tax thresholds which, *inter alia*, would take the lowly paid out of the system.

5.7 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. The following comment in the summary of the Brisbane report (see 4.1, above) is relevant:

> "The Committee concluded that – as a basic principle – in seeking to recover the cost of the works and services it provided, a revenue-raising authority should – as far as possible – charge the beneficiaries of such works and services to the extent that such works and services and their beneficiaries could be distinguished and were identifiable. Where works and services were not, or could not be, separately identified and specifically charged for, their cost should be recovered by a basic general charge which should nevertheless conform, as far as possible, with the benefit principle."

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12 The purchasing power of pensions has been affected by changes in the methods of calculating and indexing the cost of living, not least the switch from being linked to wages to linkage to an index of retail prices, the latest of which excludes housing costs, mortgages, and taxes. This is essentially a matter for HM Government to tackle, by review of the benefit system.

"In respect of 'merit goods'[13] the Committee adopted the view that charges should be related primarily to the value of the service or benefit provided (rather than to some arbitrarily determined level of cost-recovery); while in the case of any local government works or services which were effectively 'market goods'[14] it took the view that local government should adopt a realistic pricing policy and be entitled to earn surpluses (which could be applied to the cross-subsidisation of public and merit goods[15])."

5.8 An objective of the reform should be annual revaluation, with substantive revaluation at no more than quinquennial intervals.

6. PROPOSED LEGISLATION

6.1 The form of site value taxation which the Campaign advocates is substantially the same as was put forward in the London Rating (Site Values) Bill, 1938-1939 (as indicated at 4.4, above). If passed by Parliament, the Bill would have introduced this fiscal measure in the administrative County of London. In the event, it fell on a procedural technicality.

6.2 Clearly, the terms of the 1938-1939 Bill are indicative only, and would have to be up-dated and adapted to current conditions, and, as applicable, worded to satisfy the requirements of Northern Ireland law.

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13 Merit goods are defined as those which could be supplied by the market but which, for policy reasons, governments decide should be provided at less than their full cost.

14 Market goods are defined as those which could be supplied efficiently at socially acceptable prices by the market mechanism.

15 Public goods are defined as those goods which generally could not be priced in the market sense, since their use could not be made subject to price payments in the same way as market goods, and which therefore had to be paid for from public revenue.

7. FURTHER IMPLICATIONS OF A CHANGE TO SITE VALUE ASSESSMENT

7.1 The yield is predictable, and buoyant in the long term, because, in general, land values tend to rise faster than the rate of inflation.

7.2 Site value assessment recoups increases in land value stemming from public decisions and initiatives of various kinds, such as infrastructure investment, planning policies, planning gain, and enhancements to land value resulting from special arrangements and subsidies, such as the Common Agricultural Policy and the former Enterprise Zones. It also provides a compensatory mechanism where land values are adversely affected, for example by motorway or airport noise or as a result of planning restrictions. This is of particular relevance in relation to local authority activities, because planning decisions and the provision of facilities such as traffic management schemes, parks, and good quality local schools, all have an influence on land values. With a LVT system in operation, the wider costs and benefits of such schemes are transparent.

7.3 LVT is fair because land values are brought into being and maintained by the presence and activity of the community as a whole. Land values can rise (and fall) for a variety of reasons, often of an essentially political nature – for instance improvements in amenities or transport facilities, agricultural price support, regional grants, a general increase in prosperity, or grant of planning consent (which releases a latent value).

7.4 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.

7.5 LVT also resolves automatically many arguments about who is to pay for major public works. With site value assessment, it is the beneficiary who pays, and the amount payable is determined not by meticulous but dubious calculations, but by market-determined and ascertainable changes in the values of the beneficiaries’ land.

7.6 Valuations reflect the advantages and restrictions of Conservation Area/Area of Outstanding Natural Beauty/Site of Special Scientific Interest status. More efficient use of urban land that is presently derelict or under-used reduces pressures to seek planning permission for wholesale redevelopment (as opposed to restoration) in conservation areas in towns. Rural areas benefit in a similar manner, and, significantly, better use of urban land removes some of the pressure to develop on green field sites – to the advantage of AONBs and SSSIs, as well as of rural areas in general.

7.7 Inner-city dereliction, where it exists, goes hand-in-hand with high costs for infrastructure and services, which have to be extended further away from the centre. This presents difficulties in siting schools, libraries, hospitals, and the like, and gives rise to travel problems and costs. With LVT in operation, owners of vacant and under-used property come under pressure either to redevelop neglected urban areas themselves or dispose of them to somebody else who will do so.

7.8 Decisions on essentially environmental matters can be accommodated within the valuation procedure. Contaminated land is obviously less valuable than good land. On the principle that "the polluter pays", the land is valued as if it were in good condition. Landholders are then obliged to pay the land (site) value duty on this assumption of good condition. Landholders have to pay the duty regardless of whether, or how well, their land is actually being used. To produce income to meet the charge, therefore, holders of land needing reclamation will soon move to rehabilitate and redevelop their sites or make way for others to do so.

If land is so badly polluted that the costs of making good cannot be justified in economic terms (the annualised cost exceeds the attainable annual rental value) public authorities will presumably have to be given the power, perhaps after compulsory acquisition, to decide to use public funds to rehabilitate the land as a health and safety measure. The duty subsequently payable is charged on the basis of optimum use within existing planning consents.

This is an issue of planning and environmental management in the public interest, not a specific matter of revenue collection. See also appendix G.

7.9 LVT benefits small businesses, especially those in town centres which are generally asked for higher rents at reviews or on expiry of their leases. Although this is not a matter of domestic rating, it does affect the second step, recommended at 5.1.2, above, and is included here because of its general importance and interest. The lessee often cannot afford the new rent, and closes the business. Even if the landlord cannot immediately find a tenant willing to pay the revised rent, the non-domestic rate currently payable on vacant business premises is insufficient to provide an effective incentive to bring them promptly into use again. Businesses have thus been driven to extinction whilst the premises they previously occupied stand speculatively empty. With LVT, owners need to maintain the cash flow from which to pay the tax and can not afford the risk of having their property vacant for long. To avoid this, they must set their property rents competitively. Far from killing off small businesses, LVT lifts the in-built bias against them.

7.10 LVT, provided it is at a sufficiently high rate, resolves the issues of betterment and planning gain by providing a simple, effective, and automatic means for collection of increases in land value released by planning consent. In this, it at last provides planning policies with the necessary financial teeth – the lack of which has frustrated the planning process since 1947.

8. FUNDING OF WATER AND SEWERAGE SERVICES

8.1 As stated in paragraph 9 of the Terms of Reference, the Executive "plans to address the funding of water and sewerage services in Northern Ireland". The Campaign proffers the following comments:

8.1.1 Rainfall is a free gift of Nature. It may fall in a lake or river or filter through to be trapped in a natural aquifer. So far there is no case for private appropriation of value, for nothing has been man-made. The value of water as rainfall is, in the terminology of political economy, land value, and belongs by natural justice to the community as a whole[16]. Pipes, machinery, and equipment manufactured to draw and treat the water, and deliver it via water-mains to the commercial user or domestic consumer, do, however, involve the intervention of human labour and man-made capital. The difference in value between the water in the lake, river, or aquifer, and the water at the tap goes by rights to remunerate the labour and capital employed and should bear no tax. In the case of piped water there is, of course, the minor complication that it is a monopoly or near-monopoly undertaking which will probably be either a regulated private company or a public utility; but this merely means that there is a price to the customer set by administrative fiat instead of in the open market.

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16 Thus the correct position is that the landholder whose land captures the rainfall has no right to the value of that water, except in so far as he may be incurring cost in tending the lake or river bank or performing some similar duties which involve his labour or provision of capital.

8.1.2 If consumers are not charged for water, remuneration of the labour and capital involved in taking the water to them has to be paid for – no doubt largely by those same consumers, but indirectly, from general taxation.

8.1.3 *Mutatis mutandis*, the position regarding sewerage is the same. There is no such thing as free disposal. The question is: who pays, or (perhaps more to the point) is payment to be made directly or indirectly?

8.2 Fortunately, LVT does offer a solution to at least part of the puzzle. The availability of a supply of clean, safe running water to a street and the houses in it, and the provision of facilities to remove, treat, and dispose of sewage, undoubtedly add value to the location served. Properties without access to these services have the problem of providing for themselves in some other approved manner. The site value assessment takes the absence or availability of utilities like water and sewerage into account anyway; and the fact that they are free (if, indeed, they are to remain so) to those able to benefit from them, is similarly built into the valuation and shows up as a further differential over an otherwise similar location lacking these services[17].

9. CONFORMITY WITH THE EXECUTIVE'S MODEL CRITERIA FOR LOCAL TAXATION SYSTEMS

9.1 The Executive's Terms of Reference set out, at annex A, a listing of nine model criteria for local taxation systems. The Campaign's proposed policy of land value taxation is set against these criteria, as hereunder. Supporting argument is contained *seriatim* within this submission and the appendices.

9.1.1 Adequate revenue yield. There can be not the slightest doubt that LVT fully meets this criterion in every respect – present sufficiency, future buoyancy, robust, broadly based (all land is included), up to date (revaluation as frequently as every year is possible and recommended), discriminating (private values such as personal incomes and man-made capital and consumer goods are un-taxed, and only the location value of land – which is public to begin with – is captured to fund public revenue requirements).

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17 Elsewhere, at home and abroad, the prospect of frequent supply interruptions or restrictions would also have to be taken into account, to the extent that there is general perception that the service is not reliably available on a continuous basis.

9.1.2 Equity of distribution. This criterion is met in part. All landholders in a given district/jurisdiction contribute at an equal percentage rate, in accordance with optimum use of their land within current planning restrictions and other similar constraints. The Campaign does not accept "ability to pay" as the appropriate criterion, however. It champions the "benefit principle". The location value of land reflects all the advantages and all the disadvantages, natural and social, of a given site in relation to all other sites. The landholder is in receipt of those benefits. How he seeks to enjoy or exploit them is (provided it is all within the law) irrelevant to society at large. In a real sense, land has its own "ability to pay", as its value conforms exactly to the benefits it offers. [None of this gainsays that transitional arrangements at the introduction of LVT may be appropriate in cases of genuine hardship]

9.1.3 Minimum interference in markets. In perhaps rare accord, economists agree that a duty on the site value of land must lie with the landholder. This is because land is "price inelastic". LVT can not be "passed on" in higher prices, lower wages, or higher rents. Collection of the annual rental value of land creates that famous "level playing field", for it removes location value from profit calculations and leaves labour and capital to combine and compete on equal terms with others for the consumer's favour.

9.1.4 Stability and certainty. The simple response is that LVT provides both, but with flexibility. Site value assessments record increases and falls in value. Mostly these are gradual. Major changes are most unlikely to come as a total surprise. The Campaign proposes use of annual rental values, which reflect value in current use and are much more suitable than the more volatile buying/selling price basis, which contains essentially disruptive elements as well as the capitalised rent.

9.1.5 Support/not interference with policy objectives. LVT in no way threatens overall fiscal targets. It is preferable to avoid rebates from the outset. In the longer term, it is certainly proposed to operate without rebates and with a progressively reducing need for benefits. Benefits may well be retained in appropriate special cases during the transitional period.

9.1.6 Non-arbitrary administration. Objectivity and consistency in the assessment of liability are assured. Valuation lists are to be openly available for public inspection.

9.1.7 Transparent and easy for the taxpayer to understand. LVT passes this test more than fully. Land value is a public value and the valuation lists have to be available for all to consult. Apart from a small number of exceptional cases, and from a larger but diminishing number in earlier years, bills will go only to the freeholder.

9.1.8 Low administration and compliance costs. These requirements are fully met.

9.1.9 Difficult to evade. There can be not the slightest doubt that LVT fully meets this criterion.

10. CONCLUSIONS

The Campaign advocates the replacement of the new domestic rating system, and, as soon as may be thereafter, of the non-domestic rate, by a property tax based on annual site rental values only. All land is subject to the charge. The assessment is made on the assumption that the land is at its optimum permitted use within the constraints of planning regulations and other limitations.

10.1 Within a given taxation area, the rate of tax is to be the same for land in all classes of use.

10.2 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.

10.3 Conversion of local taxation to assessments based on annual site rental value eliminates the disadvantages of a capital values system and of all alternatives not based on property. Land is, in any case, peculiarly suited to provide the basis of public revenue.

10.4 The tax is intended to become multi-part, with elements set initially by local authorities, with, later, extension by precept to the Northern Ireland Executive and to the central United Kingdom government.

10.5 For those services which are provided by local authorities acting, in effect, as agencies of the central U.K. government or the Northern Ireland Executive, it is proposed that these be funded from central/devolved government elements on the site value rate.

10.6 Especially after it has been adopted by central government, LVT is seen as a replacement tax. Existing taxes are progressively abated and removed.

10.7 LVT is free from the problems of avoidance and evasion and from enforcing compliance.

10.8 Although the main reasons for replacement of existing taxes by LVT are ethical, fiscal, and economic, its introduction also remedies the long-standing unresolved question of compensation and betterment as it relates to the planning system. Further, it can be strongly influential in resolving a range of environmental issues.

10.9 LVT measures up very favourably against the Executive’s model criteria for local taxation systems.

APPENDIX A

DEFINITION OF LAND VALUE TAXATION

A1 LVT is a charge on the annual rental value of land. The valuation is the current annual market rental value of the land alone, disregarding buildings and other improvements (drainage works, standing crops, *et cetera*).

A2 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.

A3 All land, including vacant land, is subject to the charge.

A4 In practice, LVT operates in much the same way as all the present local government taxation systems in the United Kingdom, with the important differences that no land is exempt, all assessments are on annual rental value, and buildings and other improvements are in effect de-rated.

APPENDIX B

DEFINITION OF SITE VALUE

The following definition of land value is that given in section 3 of the London Rating (Site Values) Bill, 1938-1939.

The annual site value of a land unit shall be the annual rent which the land comprising the land unit might be expected to realise if demised with vacant possession at the valuation date in the open market by a willing lessor upon a perpetually renewable tenure upon the assumptions that at that date –

(a) there were not upon or in that land unit –

  (i) any buildings erections or works except roads; and

  (ii) anything growing except grass heather gorse sage or other natural growth;

(b) the annual rent had been computed without taking into account the value of any tillages or manures or any improvements for which any sum would by law or custom be payable to an outgoing tenant of a holding;

(c) the land unit were free from any incumbrances except such of the following incumbrances as would be binding upon a purchaser –

easements; rights of common; customary rights; public rights; liability to repair highways by reason of tenure; liability to repair the chancel of any church; liability in respect of the repair or maintenance of embankments or sea or river walls; liability to pay any drainage rate under any statute; restrictions upon user which have become operative imposed by or in pursuance of any Act or by any agreement not being a lease.

"works" does not include any works of excavation or filling done for the purpose of bringing the configuration of the soil to its actual configuration;

"road" does not include any road which the occupier alone of the land concerned is entitled to use.

APPENDIX C

"WHAT IS LAND VALUE TAXATION?"

The following is the current version of the text of the introductory leaflet on LVT produced and distributed by the Land Value Taxation Campaign. The leaflet is on four pages of size A5. This appendix does not attempt to reproduce the layout, only the content, the wording of which is complete and unaltered.

Land Value Taxation is a method of raising public revenue by means of an annual tax on the rental value of land. It would replace, not add to, existing taxes. Properly applied, Land Value Tax would support a whole range of social and economic initiatives, including housing, transport and other infrastructural investments. It is an elementary fiscal measure that would go far towards correcting fundamental economic and social ills.

The value of every parcel of land in Britain would be assessed regularly and the land value tax levied as a percentage of those assessed values.

"Land" means the site alone, not counting any improvements. The value of buildings, crops, drainage or any other works which people have erected or carried out on each plot of land would be ignored, but it would be assumed that all neighbouring properties were developed as at the time of the valuation; other things being equal, a vacant site in a row of houses would be assessed at the same value as the adjacent sites occupied by houses.

The valuation would be based on market evidence, in accordance with the optimum use of the land within the planning regulations. If the current planing restrictions on the use were altered, the site would be reassessed.

A NATURAL SOURCE OF PUBLIC REVENUE. All land makes its full contribution to the Exchequer, allowing reductions in existing taxes on labour and enterprise.

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

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

A MORE EFFICIENT LAND MARKET. The necessity to pay the tax obliges landowners to develop vacant and under-used land properly or to make way for others who will.

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

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

NO AVOIDANCE OR EVASION. Land cannot be hidden, removed to a tax haven or concealed in an electronic data system.

AN END TO BOOM-SLUMP CYCLES. Speculation in land value – frequently misrepresented and disguised as "property" or "asset" speculation – is the root cause of unsustainable booms which result periodically in damaging corrective slumps. Land Value Taxation, fully and properly applied, knocks the speculative element out of land pricing.

IMPOSSIBLE TO PASS ON IN HIGHER PRICES, LOWER WAGES OR HIGHER RENTS. Competition makes it impossible for a business producing goods on a valuable site to charge more per item than one producing similar goods on less valuable land – after all, producers and traders at different locations are paying different rents to landlords now, yet like goods generally sell for much the same price and employers pay their workers comparable wages. The tax cannot be passed on to a tenant who is already paying the full market rent.

AN ESTABLISHED AND PROVEN SYSTEM. Local government variants of Land Value Taxation, known as Site Value Rating, are accepted practice in, for example, Denmark and Australia.

Is it fair?

Land (unlike goods and services) has no cost of production. If an ample supply of land of equal desirability were available everywhere, there would be nothing to pay for its use. In reality land acquires a scarcity value owing to the competing needs of the community for living, working and leisure space. Thus land value owes nothing to individual effort and everything to the community at large. It belongs justly and uniquely to the community. Conversely, the reward for individual effort can belong only to the one who earns it, to spend, save or give away as he or she may see fit. Because of differences in positional advantages, fertility or natural resources, some locations are more desirable than others. Demand for access to these features gives land its rental value.

Land Value Taxation, being assessed on these values, is fair in its incidence.

APPENDIX D

ABILITY TO PAY OR THE BENEFIT PRINCIPLE?

D1 The concept of "ability to pay" is often urged, but woolly. Much is made of its alleged fairness. "Ability" to pay is a flawed concept, for it takes little account of how the taxpayer has come by his ability. In any case, present-day taxes supposedly based on ability to pay are frequently unfair or worse. Direct taxes, such as income tax, corporation tax, or capital gains tax, are open to anomalies, avoidance, and evasion. Indirect taxes like customs duties, VAT, or motor fuel taxes take no account of the financial standing or the obligations of the buyer of the goods affected. It does so happen, however, that landholders are in a perfect position to be able to pay, for they have an asset, land, whose value is derived from and reflects its capacity to produce a return with the appropriate input of labour and capital[18].

LVT is thus payment for benefits received, compensation to the rest of the community for exclusive use of a particular site. What the landholders achieve thereafter, they are free to enjoy untaxed, or, depending on how high the land value levy is set, taxed at a much lower rate. What could be fairer than that?

The benefits received by virtue of paying rent for exclusive use of a plot of land need not always be for purposes of economic exploitation. Land might, for instance, be enjoyed for residential use. Indeed, site value is being paid to-day either in the purchase price of a house or in the rent handed over to its owner. LVT captures the rent of land for public revenue and allows removal of taxes from man-made wealth.

"The amenities provided by natural surroundings, society, and government, make some places so obviously more congenial than others. Justice demands that those who enjoy these amenities should pay for the privilege according to the degree of benefit accruing to the position they occupy" – Sir Kenneth Jupp (*"Land and Liberty"* magazine, Spring 2000).

D2 Essential government services must obviously be paid for somehow. A tax should be[19]:

equal and equitable in its burden;
certain and not arbitrary;
convenient as to the time and manner of the levy;
economical – inexpensive to collect and not unduly obstructive and discouraging to the taxpayer.

Land value taxation meets all of these criteria.

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18 Labour is defined as human exertion. Capital is defined as wealth used for productive purposes, *e.g.* buildings and other structures, machinery and plant, livestock and standing crops, together with goods in course of production (raw materials, "intermediates") and goods in course of exchange.

19 The criteria are those formulated by Adam Smith.

D3 Powerful support for this view is provided from Australia. Brisbane City Council set up a Committee of Inquiry into Valuation and Rating, under the chairmanship of the Hon. Sir Gordon Chalk, K.B.E., LL.D. (Deputy Premier and Treasurer of Queensland, 1965-1976).

(a) The following extracts are from Volume 1 of the Committee's Report, dated 26th. September 1989:

Section

67 Should citizens be penalised because they worked hard and applied their skills and labour? If people acquired wealth by anti-social means, this should be remedied by law enforcement agencies…Otherwise, if hard work, energy and enterprise were desirable attributes, and if increased productivity was a desirable goal, an undiscriminating tax on incomes or wealth *per se* was illogical and not in the public interest.

68 Within the Committee it was strongly argued that income and corporate taxes and (in a time of structural unemployment, perhaps most of all) payroll taxes were inherently ill-conceived. Logically, revenue-raising should not be concerned with ability to pay…The most logical taxes were: (a) those which focused on the use or possession of the community's natural resources (of land, sea and air); (b) charges for the use of services or facilities provided by the community; (c) charges, fines or contributions to offset costs imposed upon the community; and (d) taxes or contributions to offset special benefits conferred upon particular groups or sectors within the community. While many of these contributions to revenue would tend to fall most heavily upon those who had the greatest ability or capacity to pay – because they used more resources or consumed more services – they would do so coincidentally and not because of their ability to pay.

70 Considerations of equity and efficiency led the Committee to a fundamental and, in its view, logically unassailable decision, namely to prefer the benefit principle rather than ability-to-pay. Thus the Committee sought to avoid equating revenue-raising with simply taxing wealth…The legitimate generation of wealth through labour, skill and enterprise should be encouraged rather than penalised.

120 Exemplifying the maxim that taxing capital drives it away while taxing land forces it into use, an improved value tax [*i.e.* one on man-made improvements such as buildings] is not neutral in its effect and operates to discourage development by effectively penalising it.

121 A tax on unimproved land value was undoubtedly efficient…Ownership or occupation of land was primarily, if not exclusively, a benefit the components of which were its natural attributes and the public works and services available to it, together with the less tangible but nevertheless real benefits of membership of a cohesive organised society.

122 Land, like air and unreticulated water, is a community resource the exclusive use or occupation of which by individuals should be paid for according to the extent of the benefit they enjoy. If all land in the city were valued frequently and accurately and in accordance with the use of it permitted by the city's town planning controls, a land value tax should be an accurate reflection of the benefit derived from its use or occupation.

123 A land value tax…bears most heavily upon those who have the capacity to own the most valuable land. Thus, without being aimed at the wealthy, it automatically (and equitably) also performs a redistributive function and effectively achieves cross-subsidisation.

198 While tourists and non-residents use or benefit from city services, they contribute in other respects to its prosperity. A share in this prosperity should …properly be recouped for the city through the increased value of rateable land on which, for example, accommodation and entertainment facilities are erected.

(b) The following extracts are from Volume 2 of the Committee's Report, supporting information:

[J. D. Tucker (Department of Government, University of Queensland, and member of the Committee of Inquiry): Some revenue-raising options] [The references to Mathews are to *"The Mythology Of Taxation"*, by Russell Mathews, Reprint Series, Centre for Research on Federal Financial Relations, A.N.U., Canberra, 1984]

According to him [Mathews], it is clear that…income is not a satisfactory measure of ability to pay tax; that because of the opportunities for avoidance and evasion which it presents the income tax ranks low on the overall scale of tax effectiveness and provides differing opportunities for non-compliance for different income classes and groups of taxpayers; that a nominally progressive rate structure does not necessarily make the rich pay more tax than the poor, although it is likely to make wage and salary earners pay more than other groups with comparable abilities to pay tax; that an income tax is consequently a weak instrument for achieving vertical and horizontal equity. (Page 9)

The virtue of rates in terms of their inescapability is…probably underestimated. Mathews underscores this point when he says: The fiction that people pay the tax they are supposed to pay ignores the fact of tax avoidance and evasion. The tax system has generally been designed without any thought to the effectiveness of particular taxes, defined as the relationship of actual collections to nominal or potential collections…If tax reforms are to be effective they must start from the position that we will all avoid taxes to the extent that there are incentives and opportunities to do so; and that many of us will also evade taxes to the maximum extent possible…It follows that tax reforms must have regard to tax effectiveness – the prevention of avoidance and evasion – as a major policy objective in its own right. (Pages 6 and 7)

APPENDIX E

CAPITAL VALUE OR ANNUAL RENTAL VALUE?

E1 Background considerations:

E1.1 Annual value has been the norm for property taxation in the United Kingdom. The rating system that applied from the beginning of the 17th. century until the introduction of the community charge in Britain was based on annual rental values. The national non-domestic rate (UBR) uses annual value assessment, as did the domestic property rate in Northern Ireland until this year (2007). Schedule A tax, now abolished, was on annual value. The last Bill to come before Parliament seeking to legislate for LVT, the London Rating (Site Values) Bill, 1938-1939, was based on assessment of annual value. The 1963 and 1973 Whitstable land value surveys conducted for the Rating and Valuation Association and the Land Institute respectively, were annual value assessments. The council tax in England, Scotland, and Wales, and the new domestic rating system in Northern Ireland, are anomalous.

E1.2 Land, a prime factor in production, was defined by the classical economists as the whole of the material universe apart from man (termed Labour) and his products (termed Wealth, and subdivided into consumer goods and Capital, which is essentially Wealth devoted to the productive process to help create further Wealth). Land is not man-made, and for practical purposes is fixed in both quantity and location.

E1.3 Land has a use value, for living, working, or recreation. That value consists of an ongoing revenue stream – a rental. It will vary over time, according to the general level of economic activity of the populace as a whole and the specific natural and social advantages of the locality. It measures the attractiveness of each site in relation to all other sites. If implemented nationally and progressively, the collection of a land-rent charge through LVT is a replacement for existing taxes on production, trade, savings, and spending. It has important economic consequences extending far beyond the mere alteration of the basis of public revenue. Frequent updating of land valuations is practicable and recommended.

E2 The case for preferring annual rental value assessments:

E2.1 Given the unique characteristics of land (finite quantity, not transportable, not a man-made commodity), the prime significance of its rental value in economic theory is readily understandable. There are also strong practical reasons for laying the stress on annual value.

E2.1.1 The buying/selling price ("capital value") for land is the capitalisation of the annual rental stream realised or realisable from land. Capital value is thus a function of current and perceived future rental value. Since LVT is a perpetual series of annual payments, it is illogical to base these payments on a figure which depends on perceptions of successive future values. Why not just pay annually on current annual value (value in optimum use in prevailing circumstances)?

E2.1.2 Translating annual value to capital value is critically dependent on current interest rates and assumptions about future interest rates. The related issue of inflation forecasts and the purchasing power of the currency also intrudes.

E2.1.3 Overlying monetary matters is a series of extraneous considerations which distort current use value, are difficult to foresee, or whose specific impact is hard to predict. Nevertheless they all affect capital values:

E2.1.3.1 speculation in land, a finite and immovable resource;

E2.1.3.2 boom or slump conditions;

E2.1.3.3 population movements and other demographic trends;

E2.1.3.4 introduction (or otherwise) of new amenities to the area, including public and private infrastructural investment;

E2.1.3.5 the prospects for planning permissions for more intensive land use, or conversely of planning blight.

E2.2 Whereas a rental valuation gives consistent results based on optimum use in prevailing circumstances, a capital valuation produces inconsistent, distorted, and indeed unfair values. This is because of those extraneous elements which enter buying/selling price considerations. Between locations having the same annual rental value at valuation date, the extent of "hope value"[20] will vary, in some cases substantially. Capital values will reflect the land market's view of these differing prospects. To produce capital values satisfactory as a basis for LVT, however, such "hope value" needs to be assessed and stripped from market prices. There is advantage in not having differing sets of figures purporting to represent the capital value of the same plot of land.

E2.3 Above all, the buying/selling price of land is reduced by the capitalised value of the annual duty actually payable. Existing land-related taxes, including all the domestic and non-domestic local taxes in operation, stamp duty land tax, potential liability to section 106 agreements and requirements to provide affordable housing, together with any new variant on the development land tax concept, have exactly the same effect in depressing buying/selling prices. When these taxes are replaced by LVT, the depressant effects of, for instance, council tax in England, Scotland, and Wales, and the new domestic rating system in Northern Ireland, and of the non-domestic rate, must be taken into account in the initial site valuation. Although nominally levied on the composite value of land plus buildings, the whole (not just part) of the

20 Collectively, E2.1.3.1, E2.1.3.4, and E2.1.3.5 (plus maybe also E2.1.3.2 and E2.1.3.3, depending on circumstances) are often referred to as "hope value".

payments made against these local taxes have to be regarded as part of the annual land value.[21]

E3 Remarks and recommendations:

E3.1 There is of course no objection to using capital values as an important source of information on land and composite land-plus-buildings pricing. It may even be thought that capital values are a satisfactory base for LVT, as long as the percentage collected is low and expected to remain so. However, this is clearly not the intention of advocates of LVT (like the Campaign, for instance), nor is it prudent to initiate LVT on the assumption that its practical attractions will not be noticed, giving rise to a determination to exploit it. For the reason stated at E2.2, above, capital values become administratively irksome at successive valuations with increases in the proportion of land value collected. Once LVT is in place, subsequent assessments will use annual values assessed directly (or annual values derived from capital values, plus the LVT sum actually paid).

E3.2 It has been said that in present circumstances, and in certain locations, evidence of annual residential rental values is scarce[22]. This is not an obstacle to the use of annual values for taxation purposes, but it is advisable to establish a realistic decapitalisation factor. This was an issue that faced Hector Wilks in the 1963 and 1973 Whitstable land value surveys (see 4.2, above) and was discussed in the reports that accompanied those surveys. The Campaign recommends use of either the statutory conversion factor or such other factor as can be properly justified and approved in the circumstances ruling at the time of any particular valuation.

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21 Land prices take account of the liability to pay any recurring taxes that go with ownership, including, as appropriate, council tax, the new Northern Ireland domestic rate, and/or the non-domestic rate. When the time arrives to replace current taxes by LVT, the amounts payable under these taxes must be capitalised and added to the valuer's capital assessments. That the whole amount relieved is absorbed into land value is demonstrated by the following "Benign Alien" scenario. A traveller from Outer Space is so enamoured of Harrogate, Yorkshire, where he stayed for some delightful months, that he leaves a massive sum of money behind in trust to pay henceforward the council tax and UBR imposed on the town's citizens. Of course, everyone wants to live where there are, in effect, no local taxes, and the rush of incomers so pushes up rents and land prices that the benefit of tax-free existence is entirely eroded in location costs (land values). When, at last, the money from Outer Space runs out, the citizens face taxes on top of high rents and land prices, and many flee as soon as they can to where the burden is lower, until land values come back down again. All subsidies and tax privileges are eventually absorbed in land value.

22 The growth in the buy-to-let housing market has been turning up increasing evidence lately. In the Northern Ireland context, an article by Graham Norwood in the *"Daily Mail"* of 17th. August 2007, records that, "The rental market has been buoyed too, thanks to a surge of immigrants" who are "nearly all renting, which has made the lettings market fly"; and new economic strength has "created a healthy private rental sector in Belfast".

E3.3 In the initial site valuation for LVT, it is better to under-shoot in assessing values than to strive for seeming perfection and run into subsequent embarrassments. The key at this opening stage is not so much absolute accuracy as good comparative assessment of sites, from the best in the area to the most marginal. The initial aim is relative accuracy, assessing the differentials well. As the system beds down, and given that provision will have been duly made for frequent revaluations, then, as the percentage levy rises, accuracy becomes both more important and more attainable. As extraneous factors are driven out of land pricing, the optimum value in current permitted use – the annual site rental value of land – becomes increasingly evident. The selling price of land is, by this point, the capitalisation of that dwindling part of the rental value which for the time being remains in the hands of the beneficial owner of the land – minus, presumably, an allowance for expectations of increases in the percentage levy. There will always be a relationship between the buying/selling price of land and the annual rental value of land, except at the theoretical point where all rent is captured as public revenue and nothing is left behind to be bought or sold.

E3.4 LVT will not be good news for those engaged in the tax avoidance industry. Surveyors and valuers, however, have no need for concern over their livelihoods, because the relationship between rent and price will never be universally determinable to the second place of decimals by routine computation, and there will still be the value of buildings and other developments in and on the land, to be haggled over (though no longer for tax purposes). With ongoing work for the valuation office and greater interest in development and, particularly, redevelopment, the Campaign sees no reason for families not to continue to point interested offspring in the direction of qualification as surveyor and valuer!

E4 Conclusions:

E4.1 Economic theory and practical considerations alike suggest that, even in an initial valuation and certainly thereafter, capital values be translated into rental values and presented and applied as such in the implementation of LVT.

E4.2 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. Annual value is the proper basis for the implementation of LVT.

E5 Valuation methodology when using capital value[23]:

E5.1 The methodology employed in valuing land/site/location ("land") separately from buildings and other man-made developments set in or on it, is often the technique known as the residual method. The procedure below needs to be followed in entirety. The steps for a land-only valuation are:

E5.1.1 obtain/assess composite (land + developments) market capital values;

E5.1.2 estimate and deduct "hope" value (*i.e.* the speculative elements that relate to increases in future value but which – for any number of reasons – are not realisable in annual rental value in current circumstances);

E5.1.3 add on the capitalised value of current local government tax payments (the new Northern Ireland domestic rate, and/or the non-domestic rate, as appropriate), ignoring discounts (*e.g.* for single person occupancy);

E5.1.4 estimate and deduct building/rebuilding costs, to arrive at a residual value for the land;

E5.1.5 apply smoothing, to establish consistent values per unit area of land[24].

E5.2 With current local taxes replaced by LVT operating on the capital value of land, at second and subsequent valuations step E.5.1.3, above, is replaced by the requirement to capitalise the amount of LVT being paid, and the resultant sum is added back in to the assessed capital value of the land to establish a (notional) figure for the land value free of the burden of any tax.

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23 It is again stressed that the Campaign strongly recommends basing LVT on annual rental values.

24 It is general practice to apply a correction factor to take into account that site frontage is normally more valuable than site depth.

APPENDIX F

ASSET RICH/CASH POOR

F1 A loudly voiced complaint against domestic property taxes is the alleged difficulty they cause to those – mostly (so it is alleged) elderly people – who are "asset-rich but cash-poor". A similar objection might be made to any other asset tax or wealth tax.

F2 This objection to property taxation (of which LVT is one form, though a unique one) is primarily from people who occupy large, valuable properties but are unwilling to release their equity to pay their taxes. They often seem happy to do so, though, to release funds for personal expenditure or to leave an intact inheritance to their heirs. They could with equal logic argue that they should not have to pay the high costs of heating and maintaining their large properties. By seeking to avoid paying themselves, they are asking others, many of whom are worse off, to subsidise them.

F3 Nevertheless, there are some older people who own a modest home but have, for reasons not of their own making, little to live on apart from the state pension and associated benefits. This situation has arisen through (i) the way central government payments are allocated among local authorities; (ii) the inadequacy of pensions; and (iii) lack of savings amongst many of the elderly.

F4 Pensions have not kept pace with housing costs. They have to compete against welfare benefits for funds. Taxes on wages tend to lead to unemployment amongst the unskilled and those in marginal locations.

F5 Lack of savings amongst the elderly is, it is suggested, largely a consequence of the present tax system. At least 45% of lifetime earnings are paid out in tax of one sort or another. Those renting their homes will also have been paying for the land they occupy. Even owner-occupiers will over the years have paid out for land in their mortgage repayments. By retirement most depend on their state and private pensions, even though they may own a valuable asset.

F6 These are problems that will largely go away with replacement of present taxes by LVT; but it will take a series of firm steps to implement the policy fully and several years thereafter for the ill effects of existing arrangements to fade out.

F7 Reference has been made (at F3, above) to pensioners who own a modest home but have difficulty in making ends meet. This is not a new phenomenon. LVT will change the situation significantly as it is introduced and extended and “beds down”. In the transitional period, it is possible to make arrangements for part or all of the land value duty to be deferred and secured as a first charge on the capitalised value of the composite property (value of the building plus the remaining capital value of the land), the debt to be settled at death or on prior disposal of the property or on moving out to go elsewhere).

F8 With a change from present taxes to substantial LVT, what people pay for their land will constitute the public revenue, leaving them with their full earnings. Reasonable thrift and actuarially sound pensions will enable them to provide themselves with adequate savings over the course of a working life to pay the LVT for many years on the land occupied by their homes.

APPENDIX G

[Note: This refers back to section 7.8 in the main text.]

CONTAMINATED BROWNFIELD SITES

G1 The general intention (the Campaign assumes) is that the costs of cleaning contaminated land fall on the polluter. A problem arises where, for historical reasons, this is not practicable. In such a case, arrangements may be made for the agreed costs of site restoration to be set off against the LVT duty payable, over an agreed number of years. How long is a matter of political choice.

G2 There is precedent from experience overseas. Improvements such as levelling, clearing, and filling become virtually impossible to identify after a number of years, and at some point are considered to have merged with the land, because they have become permanent, are for practical purposes invisible, and require no maintenance. In Brisbane, Australia, this type of improvement is deemed to have merged with the land after ten years or upon prior sale, whilst in the agricultural context Denmark allows agreed costs to be written off over thirty years. Legislation can be written to provide a similar arrangement in respect of rehabilitating badly contaminated brownfield land.

G3 If, for some reason, central, devolved, or local government were to pay in whole or in part for site rehabilitation, then the owner would be allowed no abatement of the land value duty beyond the portion that related to his own contribution. LVT would recover government-funded clean-up costs from the moment the rehabilitated land again became available to the landholder.

APPENDIX H

"OVERCOMING THE ODDS"

The Land Value Taxation Campaign brought out *"Northern Ireland – Overcoming The Odds"* in February 1999. This appendix does not reproduce the exact format of the original paper, but the content and wording are complete and unaltered. The reader is asked to make due allowance for the publication date (getting on for nine years ago now).

Devolution within the United Kingdom and expansion of the European Union will create both opportunities and problems for countries at the periphery. There will be increasing competition for structural adjustment funds, but at the same time a growing reluctance to raise the taxes to pay for measures intended to redress regional imbalance.

This paper explains how the odds are stacked against the economy of Northern Ireland because of its peripheral location, and shows how the introduction of land value taxation in place of existing taxes would alleviate the problems, restore competitivity to the Province, and at the same time provide a robust, sure, and independent local revenue source.

1. THE POLITICAL BACKGROUND

The United Kingdom is entering a period of constitutional change and uncertainty. In one direction lies the question of where Europe is going and what place the UK will have within whatever the EU becomes. At Westminster, the House of Lords is to be remodelled, with functions and composition as yet undetermined. The constituent parts of the UK are receiving measures of devolution – a Scottish Parliament, a Welsh Assembly, a Northern Ireland Assembly, an assembly for Greater London – with different powers in each case – and perhaps, later, other regional bodies within England. A Council of the Isles is mooted, to encompass the Republic of Ireland in consideration of issues affecting the whole of what atlases once called the "British Isles".

2. THE CHALLENGE OF THE CHANGING FINANCIAL CLIMATE

The Republic has for years received substantial cash inflow from the EEC/EC/EU. It has also offered significant tax advantages and similar incentives to attract inward investment. The EU is no longer flush with funds, partly in consequence of the 1992 depression, from which continental Europe has yet to recover. Germany is no longer willing to play milch cow. The expansion of EU membership eastwards will finally force what many consider to be long overdue change in the CAP. Whatever measures of tax harmonisation come about or not, we can expect moves against investment incentives intended to influence the location of businesses within the EU. The Republic of Ireland will increasingly have to adapt to live much more within its own means.

The same factors will affect Northern Ireland in some degree, directly or indirectly via the effect on the UK central government. On top of this, the rest of the United Kingdom is unlikely to be willing to supply funding on a generous scale for long, especially if devolution in Scotland and Wales has the effect of turning England inwards. Westminster and Whitehall will want relief from the burden of defence expenditure and of acting as insurer. The Northern Ireland Assembly may expect to be asked to pick up more of the Province's costs with the passing of every year.

3. MARGINALITY – DEFINITION

The United Kingdom and the Republic of Ireland lie on the periphery of the EU. It is inevitable, therefore, that much of what applies to Northern Ireland will apply to the Republic of Ireland too, for the economic truth is that both lie on the periphery of the periphery. As a consequence, much of the land area of Northern Ireland, and indeed of the Republic too, lies at or close to the economic margin.

This term is readily understood by considering the pattern of most towns and cities. At the centre, usually occupying the best sites in the principal streets, there are offices, banks, department stores and major branches of national retailers. Smaller shops and specialist retailers will be found along the main roads leading out of town, until the point where shops give way to houses, at first, perhaps, sturdy Victorian and Edwardian villas and then more modern suburban houses. Outside the cities, there is an increasing trend to build shopping centres readily accessible only by car and competing with the town centre shops. Certain activities – such as large scale retailing – can only succeed at places that large numbers of people can reach. They are rarely found in the remote countryside or in suburban side streets.

Other activities such as farming depend more on climate and on the natural characteristics of the land, such as topography, and inherent fertility, though distance from markets and the quality of transport links clearly matter too. In general, the most fertile land is used for growing crops, less fertile land is used for cattle grazing, the least fertile land in use is devoted to sheep grazing and forestry. Each activity and each occupation has its own margin.

There is some land where no economic use is possible. The poorest land that can support economic activity is the "margin", and no rent can be charged for its use. All better land has a rental value, reflecting its advantages over marginal land. These may be due to natural features of the landscape or the presence of mineral deposits, but, supremely, it is the coming together of people, and the general level of their economic activity, with public and private provision of infrastructure and services, that make some locations very much more valuable than others.

4. MARGINALITY – EFFECTS ON NORTHERN IRELAND

Clearly there is some highly valuable land in Northern Ireland, but because Northern Ireland, and the Republic too, are distant from the centres of population in England and Continental Europe, much of the land area is marginal or sub-marginal. To bring out the significance of this, it is necessary to consider the key aspect of the economic process. Wealth creation takes place when people, working on the earth's surface, apply their Labour and fashion raw materials (Land) into goods (Wealth). Some Wealth is consumed directly, but a portion (termed Capital) is reserved to help in the productive process, examples being tools, industrial and agricultural machinery, offices and shops, intermediate products, and stock-in-trade. Thus Labour, using Capital, works on Land, to produce Wealth. The returns to Labour, Capital, and Land are conventionally termed Wages, Interest, and Rent, respectively.

Land which has advantages over sites at the margin, commands Rent in proportion to its relative advantage vis-à-vis all other land. Land Rent scoops this difference, leaving the returns to capital (considerations of time and risk apart) and to labour (experience and special skills apart) more or less the same everywhere within a nation or community. Because marginal land only just remunerates Labour and Capital, and leaves no surplus to go as Rent, attempts to levy conventional taxes at the margin have the effect of tipping economic activities at such locations into unprofitability. Potential wealth creation is stopped. At the economic margin, at the periphery, current taxes are destroying jobs.

This is not just a matter affecting the edge of the wilderness, however. In practice, each occupation has its own effective margin; as was explained in the previous section, the point on the way out of town where shops give way to houses is one such margin. Marginal activities, in town as in the country, can be put out of business by taxation just as easily as those struggling at the literal margin of production. Thus, the more distant the activity is from the market, the greater is the impact of, for example, the vehicle fuel tax. In order to counteract the effects of taxes at the margin and make wealth creation possible, a complex system of grants and subsidies has spawned, directing taxpayers' money into selected projects and areas. This is hit-and-miss, open to abuse, and expensive to administer. It creates a regional "dependency culture".

The damage done by conventional taxes goes deeper. A Bath University study has shown that half the total cost carried by businesses to organise PAYE, National Insurance, and sickness and maternity pay, falls on tiny outfits that generate only 12% of the revenue. Spreading costs over only a few people makes administration per employee expensive. Employers with up to four workers spent £288 a year per head, but for those with more than 5,000 employees the cost dropped to £5. The impact on small companies is even more marked when the cumulative effect of all compliance costs, including VAT and corporation tax, is taken into account.

To recapitulate: conventional taxes cripple. At the true economic margin, where no Rent of Land is paid, the price at which goods are sold goes to reward only labour and capital. Where land has no economic value, any duty based on land value must be nil. The margin thus becomes a tax haven and in the absence of any other taxes, production immediately becomes viable. This can only happen if government is funded solely by collection of the Rental Value of Land. We accept that such a change cannot be made overnight, but a progressive switch from conventional taxation is a pre-requisite if the Province is to prosper.

5. COMPETITIVE ADVANTAGE

Given a switch from conventional taxes to land value taxation, producers at the periphery can turn the tables on those at the centre, whether the centre is on the mainland of Great Britain or in Europe, somewhere in the Ruhr, say.

It is a matter of everyday observation that the prices of individual items are broadly the same whether bought from a country store, a suburban shop, or a city-centre emporium – indeed, paradoxically, the country store on the cheapest land may well be charging a little above town prices. The rental value of land does not enter in to the unit price of manufactured goods. The burden of LVT, then, must lie with the beneficial owner of land (who may not be just the freeholder, but anyone with an interest in land which is capable of being let out or sold at a profit). This is well attested. In a rare show of unanimity, economists of all persuasions accept that a duty levied on land value can not be "passed on" in higher rents or in higher prices for goods made and sold at different locations of varying site value. Land, as a natural monopoly, is "price inelastic".

Crucially, the rental value of land may be collected as public revenue without adding to the price of goods. Reducing or abolishing taxes on personal and corporate incomes raises the standard of living of working people and the profitability of businesses of all sizes; whilst cutting or eliminating such taxes as value added tax and the vehicle fuel tax brings down the prices of finished goods.

From all this, we reach the brisk conclusion that Government can finance itself from LVT in the confidence that LVT, unlike existing taxes, does not enter in to the unit price of manufactured wealth. This would boost agriculture and industry, giving home production a big competitive advantage in world markets as well as the edge against imports.

6. PEACE, PROGRESS, AND PROSPERITY

In areas which have suffered most in recent disturbances – parts of Belfast, for example – property prices have been depressed. This is not because bricks and cement have become less valuable, but because the sites, the locations, are less attractive. Resolution of conflict will alter this, and in some instances has already done so. The "peace dividend" will show itself in rising land values, even if these are wrapped up in the verbiage of terms such as "property values" or "asset values". This dividend should not be pocketed by landowners but used instead to promote the well-being of all the people of Northern Ireland. It is a key argument in the case for LVT that the Rent of Land arises not as a result of the efforts of the individual or corporate entity lucky enough to receive it, but is a consequence of advantages supplied by Nature and, even more, of how and where the population at large chooses to live, work, trade, and disport itself. Whereas Wages and Interest are private values, Rent is a public value, and it is Rent upon which the government should call to fund public expenditure.

7. PLAN OF ACTION

In the absence of an initiative by the United Kingdom Parliament, the Northern Ireland Assembly should press for powers to determine its own revenue regime, and should take immediate steps to implement LVT. The Republic of Ireland could take the same decision independently, or find itself more or less compelled by economic reality to follow suit, as, incidentally, could the remainder of the UK.