LAND VALUE TAXATION CAMPAIGN

PROPERTY INVESTMENT FUNDS

RESPONSE TO CONSULTATION DOCUMENT

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PART I
ABOUT THE LAND VALUE TAXATION CAMPAIGN

The Land Value Taxation Campaign is a non-party organisation which was established with the aim of securing legislation which would fundamentally change the basis of public revenue in the United Kingdom. It proposes that existing taxes on wages, goods and services should be progressively replaced with a property tax on the annual rental value of all land. This is referred to as Land Value Taxation (LVT) and is defined and explained in the attached appendices A and B. The Campaign would wish to see 100% of the land value collected in this way.

This response has been compiled by a sub-committee of the Campaign.

PART II
GENERAL BACKGROUND CONSIDERATIONS

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

2 The Campaign believes that further confusion arises through use of the term "property", which not only but also buildings and improvements, which in political economy are classified as capital. This distinction is not mere pedantry, as the two entities respond very differently to market forces. An increase in demand for commodities and manufactured goods calls forth additional production. Because land is fixed in quantity, is not transportable, and has no cost of production, increased demand does not call forth increased supply. Oxford Circus is one of the most sought-after trading positions in the country. There is only one Oxford Circus. Once it is occupied, traders are obliged to occupy inferior sites. As these inferior sites come into use, the value of better sites is driven up.

3 The three factors of production are land, labour and capital. When land is not freely available, wages tend to the minimum that people will accept, whilst experience seems to show that the real return to capital is fixed at a 'natural' rate of interest of between 2% and 3%. Thus, growth in productivity tends to increase, disproportionately, the return to the third factor of production, land. This accounts for the common observation that land values increase at a greater rate than the general increase in prices due to inflation.

4 The absence of a holding tax on land, such as LVT as advocated by the Campaign, based on current market rental value and kept up to date, means that land prices are not only the capitalisation of the annual rental value, but also include an element of hope value in the expectation of rises in the future, from infrastructural improvements, general economic growth, population movements, possible reallocation of the land to a higher use class, subsidies, tax concessions, interest rates and inflation. LVT would remove this speculative froth from land pricing.

5 Land prices are also "sticky downwards" – they rise more easily than they fall in response to market pressures. At times when land prices are depressed, owners generally keep it off the market awaiting an upturn in the economy. Thus, land prices do not respond to supply and demand in the same way as manufactured goods.

6 Current taxes bear on wealth creation, on goods and services, on trade, on spending by consumers and on savings. Withholding and under-use of land incur no penalty other than rental income forgone. Would-be producers are forced to go to poorer, less productive sites, which may well mean that the activity is not worthwhile and production is lost altogether.

7 In summary, the present tax system distorts patterns of land use, takes from the wealth creators and is benevolent to indolent and uncaring landowners. This is harnessing the profit motive in reverse!

8 Land value tax is morally justified, being in accordance with the "benefit principle"; land values are created and sustained by the presence and activities of the community today – any arrangement made in previous centuries is of little relevance since land value rests on the assumption that public services and a state of civil order will be maintained today and for the foreseeable future. An example of the operation of this principle is that the tax would provide a clawback mechanism whereby increases in land value due to infrastructure improvements, subsidy, etc, were returned to the Exchequer, thereby providing a rolling fund for further improvements if desired.

PART III

RESPONSE TO THE CONSULTATION DOCUMENT

1 The Campaign is broadly in support of the aims of the proposal for Property Investment Trusts, as set out in paragraph 1.22. Indeed, the LVT movement is sustained by, amongst other things, concern about the underlying issues.

2 The proposals for PIFs will, however, not achieve these aims. If they have any effect at all, they will aggravate the problems they are trying to solve. Experience also shows that schemes of this kind open up loopholes in the tax system.

3 It appears to be assumed that corporate ownership of land would lead to better management of property. There is no reason to believe this. If all land were to be rated on the assumption that it was in optimum use consistent with the planning regulations, competitive forces would ensure good management.

4 The tax-exempt status of PIFs will increase the return from land ownership. Since post-tax returns tend to even out, the effect will be to drive up land prices. This is, presumably, the opposite of what is intended.

5 ‘Investment” in land is not investment at all, but the purchase of an income stream. Transfer of land ownership *per se* adds nothing to total productive capacity. To that extent, it is dead investment, wholly undesirable and to be discouraged.

6 Replacement of existing taxes by LVT would enable all to share in the benefits of growth in land values, which appears to be the aim of the PIFs.

7 The Land Value Taxation Campaign argues that problems arise due to the private appropriation of land rent.

This has the following consequences.

(a) Land is not necessarily kept at its optimum use consistent with the planning regulations.

(b) Land may be held out of use altogether, thereby depriving others of a productive opportunity.

(c) Government is deprived of a potential and logical source of revenue and therefore has to rely on other forms of taxation which are harmful to the economy. Large tracts of the UK consist of marginal and sub-marginal land. Where land is barely above the margin, taxation is likely to be critical to the viability of an economic enterprise – in other words, there will be situations where a business would be viable but for the imposition of the tax. Potentially viable land then becomes sub-marginal. In this regard, harmful taxes include not only income tax, and National Insurance, but also fuel tax and VAT, which increase the cost of business inputs and tip the balance into unprofitability. This is particularly so in the case of small businesses and in remote rural areas where transport costs are high.

(d) Expenditure on infrastructure improvements, subsidies, etc are all ultimately capitalised into land values. As a consequence, a significant proportion of the income stream from new developments of this type is appropriated by landowners, and this makes infrastructure investment difficult to justify, since the investor sees much less than the full return and there is usually little direct return in the form of increased tax yields from landowners.

Land Value Taxation (LVT) would help each of these

(a) LVT at a substantial and rising proportion of the annual rental value would induce the landowner to make optimum use of the site in order to earn the income from which the tax would be paid. The cost of holding land out of use would be too great for landowners to indulge in this practice.

(b) One of the effects of replacing existing taxes by LVT is to reduce or eliminate the burden of taxation on economic activity on marginal land, because the assessment of marginal land for LVT purposes is, by definition, nil.

(c) In the absence of existing taxes, large tracts of sub-marginal land would undoubtedly become capable of supporting productive economic activity, and the Campaign therefore advocates the progressive replacement of existing taxes by LVT as quickly as this can be achieved.

(d) LVT would provide a clawback mechanism whereby increases in land value due to infrastructure improvements, subsidy, etc, were returned to the Exchequer. This would provide a rolling fund for further improvements if desired.

PART IV

APPENDICES

APPENDIX A – DEFINITION OF LAND VALUE TAXATION

A1.1 LVT is a tax 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.

A1.2 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.

A1.3 All land, including vacant and agricultural land, is subject to the tax.

A1.4 In practice, LVT would operate in much the same way as the present national non-domestic rate, with the difference that no land would be exempt and buildings and other improvements would in effect be de-rated.

APPENDIX B – DEFINITION OF LAND VALUE

The following definition of land value is that given in Section 3 of 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 sedge 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;

[‡] Copies of the full text of the Bill are available on request from the Campaign, which distributes it following consultation with Messrs. Dyson, Bell & Co., and Mr J. Hastings, Clerk of the Journals, House of Commons, confirming that there was no objection to distribution. It is also posted on the Campaign's web site.

(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.