

## **Submission to the Lyons Inquiry into Local Government Funding from the Labour Land Campaign**

# **A strategy for introducing a land value tax in Britain<sup>1</sup>**

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### **Introduction**

1. I have discussed previously in some detail the economic case for introducing a land value tax in Britain.<sup>2</sup> Some of the major benefits of a land value tax (LVT) compared with other taxes are summarised in **Box 1**. In this paper, I focus on the practicalities of introducing such a tax in Britain, first as a replacement for the council tax and national non-domestic rates, and then gradually extending it nationally to replace certain other taxes that have a negative impact on economic activity, including income tax. In addition, I dispel certain myths often associated with LVT.

### **Land development taxes versus LVT**

2. The first point to stress is that a land value tax is quite different from a land development tax. A land development tax is a one-off tax on the uplift of value of a site following planning permission once the site has been developed, whereas a land value tax is an annual payment made on all land according to its prevailing value and optimal permitted use, whether or not the site is being utilised to its best advantage. The land tax, under the guise of 'planning gain supplement', that the present government is considering, following the recent Barker Review,<sup>3</sup> is a land development tax. Such a tax has been introduced on three previous occasions by Labour governments, only to be repealed by the Conservative governments that followed, partly for ideological reasons, but also because on each occasion, it was an abject failure.<sup>4</sup>

3. The problem with a land development tax is that it acts as a disincentive to develop land because landowners tend to hold out in the hope that the tax will be repealed by a future government – which is what happened each time before. And, in the meantime, they can watch the value of their land rise without them having to do anything, all the more so because they add to shortages of land for development. A land value tax, on the other hand, encourages the development of the land as quickly as possible so that landowners can obtain the necessary revenue to offset the tax, because the tax has to be paid whether or not the land is developed. That is why LVT tends to improve land use, reducing the incidence of derelict or underutilised sites, and gives rise to increased economic activity.<sup>5</sup> Moreover, unlike other land taxes, LVT provides a stream of income derived from all land indefinitely, rather than merely a one-off payment on sites that happen to be in the process of being developed.

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<sup>1</sup> An earlier version of this paper was presented to the Left Economics Advisory Panel, 18<sup>th</sup> July 2006. I would like to acknowledge the education that I have received from various members of the Labour Land Campaign, ALTER, and other groups advocating LVT.

<sup>2</sup> *Morning Star*, 23 June, 7 July, 21 July, 4 August, 18 August 2004; 27 April, 12 October 2005; and 1 February 2006. The first five have been reproduced in the Labour Land Campaign pamphlet, *Land Value ... for public benefit* (October 2004). All can be viewed on the Labour Land Campaign website at [www.labourland.org](http://www.labourland.org).

<sup>3</sup> Kate Barker, 'Review of Housing Supply', March 2004, [www.barkerreview.org.uk](http://www.barkerreview.org.uk).

<sup>4</sup> A succinct account of the reasons for their failure has been given by V.H. Blundell, 'Flawed Land Acts 1947-1976', in Nicolaus Tideman (ed.), *Land and Taxation*, Shephard-Walwyn, London 1994, and reproduced on the Labour Land Campaign website, [www.labourland.org](http://www.labourland.org).

<sup>5</sup> This is well illustrated by the city of Harrisburg in the United States, which sharply increased land value tax whilst decreasing other property taxes. It resulted in the gradual elimination of inner city blight so characteristic of other cities in the US, and in higher employment and a huge reduction in social problems. Moreover, because, as a result of the heightened economic activity, revenues increased, the city council was able to reduce the rate of tax. (See my article, 'The US example pointing the way: How the town of Harrisburg was turned around on the back of change in the tax system', *Morning Star*, 12 October 2005, and at [www.labourland.org](http://www.labourland.org).)

## **Box 1**

### **Some economic benefits of land value tax**

*Land value tax (LVT) is a means of collecting for public benefit a share of the increasing wealth of land that all of us create through our economic and social activities*

*LVT is fair because landowners are charged for the benefits they receive. An area with more and better services (public and private) enjoys higher land values than a similar area with a lower level of services*

*LVT would be used to finance infrastructure and, more importantly, to reduce or replace other taxes which damage the economy.*

*LVT recognises that every individual helps create land values through their work, their community activities and their spending*

*LVT recognises that every new investment – public and private – helps create land values, whether it is in public transport, businesses, leisure facilities, schools, hospitals, airports, making neighbourhoods smarter and more pleasant, or in homes or jobs*

*LVT also recognises that existing services and businesses – public and private – add to land values*

*By including land that is currently kept idle, LVT encourages better use of land, particularly in towns and cities*

*LVT therefore encourages investment in more jobs and businesses and more affordable homes*

*By encouraging the use of urban brownfield sites, LVT actively contributes towards protecting the rural environment*

*LVT therefore helps to protect green land, green belts around cities, and minimise urban sprawl*

*Less urban sprawl would allow shorter commuting, less cost on roads and public transport, and less energy wasted*

*LVT will rid communities of derelict sites and buildings that encourage anti-social behaviour*

*Unlike other taxes, LVT is practically impossible for people and businesses to evade, and is cheap to collect*

*LVT increases the funds available for public services, including public transport, health, education, leisure facilities, crime prevention, and social welfare*

#### **Steps towards introducing LVT**

4. In order to introduce LVT, the first requirement, obviously, is that all land must be registered so that the beneficial owner can be identified. This has been the responsibility of the Land Registry, first established in 1925. In spite of the time lapse, almost half of the land in Britain is yet to be registered. However, the task is more or less complete for urban areas. It is the large estates of wealthy rural landowners that are missing. But the Land Registry, with the help of various incentives and penalties, is now expected to finish the job within the next few years. In fact, research by Kevin Cahill has already identified most of the

beneficial landowners, at least informally.<sup>6</sup> Meanwhile, the steps required for introducing LVT could go ahead anyway.

5. The next step would be to value every plot of land separately from the buildings and other developments on the land. This is often thought to be difficult. In fact, experience from other countries shows that valuing land is easier, less costly and more accurate, than valuing buildings or other developments on land. That is because valuing buildings is complicated by their uniqueness in terms of architectural features, state of repair, what the buildings are being used for, how old they are, and so on. Land value, on the other hand, is determined almost entirely by its location relative to various amenities and by planning permission.<sup>7</sup>

6. Some idea of the land value of properties can be obtained by comparing their value for insurance purposes, which essentially comprises the re-building costs of the buildings on the site, with the overall market value of the property. The difference is approximately the land value, though to get a more accurate picture, the depreciated value of buildings rather than their replacement cost should be used. In fact, at least seven methods are available to a trained land valuer to determine the value of particular sites.<sup>8</sup> By such methods it would be possible to value all land, which, for LVT purposes, could be placed in bands according to value per hectare or per square metre. Using bands greatly reduces the number and cost of appeals. Computer-aided mass assessment and geographical information systems can be used to construct maps, or 'land-value-scapes', in which, instead of showing contour lines depicting topography, the maps would show lines connecting places with similar land values.<sup>9</sup> Thus, knowing the area of a site, one would immediately be able to calculate its value by referring to its position on the map. Once such a system for valuing land had been established, it would be easy to update valuations more or less continuously as new data on transactions and other developments became available.

7. At present, there is a need to educate the public, and more especially politicians and their advisers, as to the benefits of LVT, and why overall it is a fair tax. In particular, it needs to be got across that it is society as a whole that gives land its value, and that therefore it should be society as a whole that should benefit from the enhanced value of land as a result of the economic activities carried out by everybody. Advantage could be taken of the fact that support for LVT among those who have thought about it extends right across the political spectrum, so that there are ample opportunities for forming political alliances. The main opposition comprises the very large landowners who would see their privileges sharply curtailed. However, these are a very small minority of the population, though they are powerful.

8. A major task is to dispel the many myths and confusions that have become associated with LVT. Two have already been dealt with, namely the confusion with other types of land tax, and the supposed difficulties of valuing land. Another common myth is that LVT would penalise owners of sites with some kind of disadvantage, such as residential properties backing onto busy railway lines, motorways, or noisy factories, or close to rubbish dumps and the like. However, valuations would take these negative features into account – the land would have a lower value, and therefore the LVT would be lower.

9. The main body of opinion that has to be won over undoubtedly are homeowners, since some 70 per cent of dwellings in Great Britain now, and the land on which they stand, are owner-occupied, mostly freehold.<sup>10</sup> An advantage here, if the aim was to introduce LVT at local level only in the first instance, is that the prevailing council tax regime is unpopular

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<sup>6</sup> Kevin Cahill, *Who Owns Britain: The Hidden Facts behind Landownership in the UK and Ireland*, Canongate Books, 2002.

<sup>7</sup> In the US, in states which have a split tax, partly on land values and partly on buildings, the number of appeals on the valuation of buildings always far exceeds those for land valuations. It means that many more people have to be employed to deal with valuing buildings, thus adding considerably to the costs of collecting the tax.

<sup>8</sup> Ted Gwartney, 'Estimating Land Values', [www.henrygeorge.org/ted.htm](http://www.henrygeorge.org/ted.htm).

<sup>9</sup> Pioneering work on this front is being conducted by Tony Vickers, at the School of Surveying, Kingston University.

<sup>10</sup> *Social Trends* No. 34, Office for National Statistics, 2004.

because of its regressive nature. It needs to be shown that most people, following the introduction of LVT, would be better off.

10. Fortunately, we have the benefit of a major study carried out last year in the Vale of White Horse District in Oxfordshire, where it was shown that the same amount of revenue currently coming from council tax and national non-domestic rates could be raised if the basic rate of LVT was set at 0.8 per cent of the market value of each site.<sup>11</sup>

### **Transitional arrangements**

11. As with any other major change in the tax system, the introduction of LVT would inevitably lead to 'winners' and 'losers', compared with what prevailed previously. This has been the case in the past, when, for example, governments, over time, have reduced direct taxes on incomes and profits, and increased indirect taxes such as VAT and excise duties. Thus, once it is decided to extend LVT beyond a replacement for council tax and national non-domestic rates, it would make sense to do this gradually, perhaps over a ten-year period or more, to give time for people and businesses, and the economy as a whole, to adjust to the new system, and for the economic benefits of LVT to bear fruit.

12. Meanwhile, various measures are available to ease the transition. For example, the Oxfordshire study, for residential properties, incorporated a 'homestead allowance', similar to the personal allowance for income tax purposes, which acted as a threshold before LVT was applied. This led to twice as many 'winners' as 'losers' (7 to 3) – an important political consideration – with the 'losers' confined more or less to the higher council tax bands, who, under the current council tax regime, are the most wealthy, paying a disproportionately low tax compared with those in lower tax bands (which is one of the flaws of the council tax).

13. A major concern is the extent to which LVT would penalise those living in areas who have seen the value of their properties increase sharply over the years (which is entirely due to rising land values in those areas), while their incomes have not grown proportionately, or perhaps even have gone into decline if they have become pensioners or unemployed, or have been widowed. This could also apply to established businesses. However, this can be mitigated in a number of ways.

14. First people – and also businesses – could simply choose to increase the occupation of the premises, for example, by taking in lodgers or sub-letting, or they could move to smaller properties or to areas where land values were lower. This, indeed, is one of the long-term benefits of LVT – it encourages the more efficient use of the land that is available.

15. Secondly, for residential properties, people could be allowed to defer the payment of LVT, or at least a part of it, until the property was sold or transferred to heirs. This would enable people to carry on living in their properties at no extra cost, and if they so chose, to pay less tax than they do now. However, it is only fair that the tax plus interest should be paid eventually because the increased value of their properties (that is the land on which they stand) would have been created by the activities of the community as a whole, and not by those who happen to occupy the particular site. Meanwhile, local authorities could obtain the revenue that they otherwise would have received from low cost loans using as collateral the stream of income that they would receive eventually.

16. Thirdly, for those on very low incomes, it could be arranged that they received benefits similar to council tax benefit now (though in the long run, a better solution would be simply to raise wages or pensions, but that is another story). In fact, with a 'homestead

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<sup>11</sup> *The Oxfordshire Land Value Tax Study*, Oxfordshire County Council, February 2005. This 41-page report is available from Brian Hodgson (brianhodgson@btinternet.com). Brian Hodgson, currently Chair of the Labour Land Campaign, and a former member of the Oxfordshire County Council, initiated the project with strong support from other councillors from the Labour, Liberal Democrat and Green Parties on the County and District Councils. However, the newly elected Conservative majority now disown it. It should be pointed out that in many ways, the Vale of White Horse is atypical in that it does not contain a major urban centre. Land values in the centres of towns are invariably very much higher than in outlying areas, and therefore would yield higher revenues, or allow lower rates of tax. This would reduce the amounts that would have to be raised from residential and business properties further out.

allowance' in place, if fixed at the right level, those on very low incomes could be liable to very little, or even no, LVT.

17. In the case of businesses, there may be instances when the local community might, for one reason or another, want to preserve the productive activities of certain local businesses in the locality. This could be handled simply through the planning system, which could limit the way in which the land was used. This would reduce land value in these particular cases, and therefore their liability for LVT. Similarly, parks and open spaces, including school sports fields, would be more or less exempted from LVT because prevailing planning regulations would reduce their land value virtually to zero.

### **The effect of LVT on land prices**

18. Another common concern about extending the role of LVT is that it might cause property prices to fall due to an increasing proportion of the value of land going to public authorities in the form of LVT, especially once extended beyond a replacement for council tax and national non-domestic rates. However, this would be offset by the rising value of land, first due to its limited supply in relation to demand, and secondly, because of improved public services and amenities that would be funded by the LVT. In addition, the reduction or abolition of existing taxes as LVT is extended, and also the greater efficiency of land use, will tend to increase demand for property, which would have a positive impact on overall property prices. In short, market prices for land are likely to stabilise, or rise less fast in money terms than they otherwise would, and more or less in line with the general rate of inflation. This would benefit future homeowners, especially first time buyers, by making homes more affordable than they would otherwise be, especially as, during the course of time, incomes would tend to grow faster due to the heightened economic activity as a result of LVT substituting for other taxes.

### **Extending LVT beyond a replacement for council tax and national non-domestic rates**

19. As implied above, it is envisaged that in the first instance the most appropriate way for introducing a land value tax in Britain would be as a replacement for the council tax and the national non-domestic rates. After that, the next step, logically, would be for it to be extended to replace the central government revenue support grant, which, currently, on average, accounts for nearly half of the revenue of local authorities (the amount varying according to needs and the population structure of the localities under the jurisdiction of local authorities). In other words, it could be a first step towards substituting LVT for income tax – which, in effect, is what funds the central government support grant going to local authorities. However, as now, there would still be the need for an 'equalisation mechanism' to take account of inequalities between different local areas, and their different needs. This could be achieved by a certain proportion of LVT collected by local authorities – perhaps half or more – being pooled at central government level, and then redistributed more or less on a per capita basis, which is how the system of national non-domestic rates operates now.

20. Once it was decided to extend LVT beyond the local level, it would be important, for both political and economic reasons, for other taxes to be reduced pro rata every time the rate of LVT was increased, so that LVT was genuinely a replacement tax, and not an additional tax burden, and would be seen to be as such.

### **Effect of planning permission on land values**

21. Another major issue is that land values in Britain are highly dependent on the planning permission given for particular sites. In particular, there is a huge difference in land values between land near towns restricted to agricultural use, and that which is designated for industrial, commercial or residential use. For example, according to the Valuation Office Agency, the average price of land designated for agriculture in South East England is just over £9,000 per hectare, whereas for residential use, it averages nearly £2.8 million per hectare.<sup>12</sup> Thus, if a landowner suddenly gains planning permission to convert agricultural or commercial land to, say, residential use, he or she could be in for a windfall gain of several million pounds.

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<sup>12</sup> Barker, *op. cit.*; p. 76.

22. It is this fact that has lent support for the ‘planning gain supplement’ proposed in the Barker Review, which, it is argued, would allow the community to benefit from the windfall gain resulting from the planning permission granted by the public authorities, in effect, acting at least nominally on behalf of the local community. However, as already argued (in paragraph 3), this acts as a disincentive to develop the land, especially as the tax would only be due after the land had been developed. In contrast, LVT, which could be more than 200 times what it would have been before planning permission was granted, would be due immediately, so that there would be every incentive to develop the land as quickly as possible. Furthermore, instead of being merely a one-off payment, it would become due every year in perpetuity, so that the revenue stream for public benefit would be far in excess of what it would be for a ‘planning gain supplement’. Moreover, it would capture not only the uplifted value, but also the residual value, and it would capture both the residual value and the uplifted values of neighbouring properties, due to their enhanced value arising from the development of the neighbourhood. On top of that, if the landowner sold the land with the new planning permission at its inflated value, he or she would become liable for capital gains tax, which would add further to public revenues.

### **Rental land values versus capital values**

23. Traditionally, it has been considered that LVT should strictly be levied on the imputed rental value of land rather than its capital value. That is because LVT is essentially a method of collecting for public benefit the economic rent from land arising from the expanding economic activity in which everybody is involved. However, it is a simple matter to go from one to the other using an appropriate discount rate. The advantage of setting LVT as a percentage of capital value is that the data on capital values is more readily available, and people are already familiar with the concept in relation to property.<sup>13</sup> Meanwhile, tax authorities, when deciding on the rate of tax on capital values, could still derive it from a theoretical tax on imputed rental values, if that seemed desirable, though, in practice, the rate is more likely to be decided by the amount of revenue that the tax authorities, either at local or national level, were wanting to raise.<sup>14</sup>

### **The role of LVT in the funding of infrastructure**

24. LVT could play a major role in the financing of infrastructure, especially, but not only, public transport, so that over time, it would be the beneficiaries of the investment who would pay. For example, the Crossrail project – a proposed rail-link between Maidenhead, Heathrow Airport and central London, and through to Shenfield, east of London, and Abbey Wood in south-east London – that has been talked about for years, could be financed by borrowing on the basis of the additional revenue from LVT that would be collected due to the higher value of the land in the vicinity of Crossrail, after completion of the project. The London Underground Jubilee Line extension, which cost taxpayers £3.5 billion, could have been financed in this way. It has been estimated that as a result of the extension, land values in the vicinity of just two of the stations, Canary Wharf and Southwark, increased by £2.8 billion, and, over the whole extension, by some £13 billion.<sup>15</sup> In other words, had LVT already been established, the public as a whole would have been the beneficiaries from the higher land values created, instead of the private landowners in those areas, who had contributed nothing to the project.

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<sup>13</sup> In addition, the rate of tax on capital values is relatively low, which would perhaps make it more palatable! For example, with a discount rate of 5 per cent, a rate of tax on rental value of 20 per cent would translate to a 1 per cent tax on capital value.

<sup>14</sup> An issue that would come to the fore over time, the more so as LVT was extended beyond the local level, which will require some explaining, is that the market value of land (that is its price) relative to its overall capital value would tend to decline because an increasing proportion of the value would be captured by public authorities (which, of course, is the whole point of LVT). As explained in paragraph 16 above, this would be offset to a greater or lesser extent by the continuing increase in demand for land relative to supply, but there would nevertheless be an increasing gap between the two values.

<sup>15</sup> Atisreal and Geofutures, *Property Value Study – Assessing the Change in Values Attributable to the Jubilee Line Extension*, Transport for London, London, 2005. D. Riley, *Taken for a Ride: Trains, Taxpayers and the Treasury*, Centre for Land Policy Studies, London, 2001. Fred Harrison, *Wheels of Fortune: Self-Financing Infrastructure and the Free Market Case of a Land Tax*, Institute of Economic Affairs, London, 2006.

**Summary and conclusion**

25. It is quite clear that if starting from scratch, a land value tax has overwhelming advantages over all other ways of raising revenue for public expenditure. It is not only fairer, but also has many economic benefits. The main issue, therefore is how to move from our current system of taxation to one in which LVT would become the main source of revenue. However, as this paper shows, the transition – starting with the replacement of council tax and national non-domestic rates by LVT, and then gradually extending to national level via replacement of the central government support grant going to local authorities – could be managed relatively easily making use of various interim arrangements to allow time for the economy and society gradually to adjust to the new system. All that is required to start off the process is the political will to stand up to the powerful vested interests opposed to LVT. This would be facilitated by the fact that support for LVT among those who have thought about it extends right across the political spectrum.

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