

The Highbury Group

A Note on Land Value Taxation by Bob Colenutt

The Case for LVT

1. As part of the Highbury discussion of property taxation, I have been asked to provide a note on Land Value Taxation (LVT). I am not an evangelizer for LVT but I am an evangelist for fair taxation of land and for capturing land value. LVT is one measure that needs very serious consideration.
2. The overall case for LVT is well known but needs to be restated because the crucial question is why tax land and not just tax property. In the UK a huge amount of land value is created but is not captured by communities, nor used to fund public services. Existing property taxes (Council tax, Business Rates, Stamp Duty, capital gains tax, Inheritance tax) are fragmented, and pull in a fraction of the value created by economic growth and infrastructure provision. Property taxes such as Business Rates and Council Tax are paid by occupiers of property not by landowners. They reduce business and occupier income and arguably deter economic growth. Land value is an unearned windfall because it is not created by property improvements but by location, and its appreciation over time is not taxed.
3. Yet occupiers of land are charged a rent which goes up over time. Renters do not get the benefit of the increased value of the land they occupy or of infrastructure investment made nearby. Indeed they get rewarded with rent increases because of the increased value of their location.
4. We are familiar with the argument that land is easier to tax than occupiers because it is fixed and finite, while other property taxes suffer from widespread evasion and fraud due to a matrix of exemptions and exceptions, off shore devices, trust arrangements and poor enforcement.
5. It is generally agreed that taxing land will reduce land speculation and incentivise landowners to bring vacant land into use. The famous example from Harrisburg USA is that the LVT system brought significantly more vacant sites land forward for development.

The politics of LVT

6. LVT is a root and branch approach to land value and taxation. The concept of taxing land rent has been advocated by eminent economists over decades and has been implemented fully or in part in many countries (for example, Australia, Denmark, Estonia, Hungary, Lithuania, Kenya, Mexico, South Korea, Taiwan, Thailand,). Arguably

where it has failed, it has been for political and administrative reasons (e.g. uneven and intermittent valuation) not because of the principle of taxing land.

7. In England, the idea of taxing land wealth (in any form) is highly contested. Land ownership lies at the heart of the UK class system. There are close connections between the Conservative Party and landed capital backed by well connected lobbies such as the Country Landowners and Business Association that were established precisely to oppose land taxation and public ownership of land.
8. The Scottish situation is somewhat different with more historical awareness, a strong crofting tradition, and active political protest over the activities of larger landowners (Andy Wightman, *Who Owns Scotland?*). There is also legislation that gives communities first refusal on the purchase of large estates.
9. One of the political challenges in England is to explain LVT to ordinary homeowners encouraged by the media to think that LVT is a punitive 'garden tax'. Additionally, there is what Churchill called the 'Poor Widow Bogey' which asserts that a land tax will impoverish widows who own property but have little income. The facts are that in many countries there are exemptions, for example, where principal home owners are exempt; in others there are land value thresholds, and in others, property taxes are abolished so that LVT is not an additional tax.
10. In England, there is no popular land reform movement despite protests over many land-related issues such as lack of affordable housing, access to the countryside, and land banking. These grievances (aided by excellent studies like Shrubsole's 'Who Owns England?' or the work of Fred Harrison, or Brett Christophers), have not yet gelled into a land reform movement or a demand for LVT or similar. Without such a movement based upon demands for land as a common good and fair taxation, nothing is likely to change. Yet just because the task is daunting does not mean that building such a movement is a waste of time. Most particularly at this time of cost of living and climate crises with a potential reassessment of what is the best use for resources including land, the moment for land reform (and land taxes) has come. The recent work of the Liverpool City Region Land Commission is an interesting example of a fresh approach to land in urban areas (CLES, 2021).
11. LVT has a long history and a number of influential backers (ranging from Churchill to Martin Wolf of the FT, Lord McPherson who was permanent secretary at HM till 2016) and think tanks (for example, see report on replacing business rates by LVT by NEF; or Welsh Government's Technical Assessment of the Proposal for a Local LVT, 2020.) Second, it is in theory simpler to collect compared with other taxes and has a huge potential tax take that could mean that other taxes such as Council tax, Business rates and stamp duty could be abolished.

How would LVT work?

12. There is no definitive template for implementing LVT. Different countries and municipalities use different approaches but the aim of each one is to tax on a regular and consistent basis the value of land held by all landowners (in many countries there are thresholds and exceptions such as for charities or some public bodies). LVT taxes the value of the location itself. All land both residential and non-residential would be valued at its optimal permitted use with existing planning policy/regulations, disregarding any improvements including buildings. In other words, the land is taxed at its permitted use but not the buildings on it, or any other current use. Thus, vacant land would not escape a land tax.
13. The tax rate (which is often at 1-3%) would be agreed at a local level. Local authority valuers would set the value for each parcel of land using individual or area based estimates which in turn would depend upon reliable planning information and up to date data/register on who owns land. Valuations would need to be undertaken annually to generate annual tax requirements from each landowner. In British Columbia there is a digitalised system for property valuation. Stephen Hill concludes that 'Basically, the digital resources now available are well up to the task of assessing land and improvements separately, and to a degree of accuracy that is good enough to match old fashioned property by property assessments 'by hand', and which also eliminates the variations that would inevitably arise from that process, given the numbers of individual assessors there would need to be, each with their own biases/techniques'. See also <https://www.gameofrent.com/content/can-land-be-accurately-assessed> .
14. Split rate valuations are common in the US. Here there is a property tax on improvements, and a separate land tax for the land underneath.

Conclusion

15. LVT is daunting because it is root and branch and requires overhaul of the tax system, including increasing the local autonomy of local authorities, which is completely alien to the culture of both the Treasury as an institution, and the main political parties; all still grounded in a highly centralised understanding of the role of national government. LVT has well connected opponents but it also has prominent supporters. It is unlikely to be introduced without building popular support for land reform and land taxation as an alternative to existing property taxes.
16. There are undoubtedly challenges of defining the optimal use of land within the UK planning system, and there are challenges of under-registration of land, and institutional resistance. However, other means of capturing land value have been partial or have tinkered with land value and have achieved very little. LVT stands up for renters and

occupiers. It is a comprehensive and fairer solution to property taxation and encourages better use of land.

17. LVT could be implemented nationally, or could be city wide allied to local government reform, or could be levied for particular pieces of major infrastructure (HS2, Cross Rail etc). The city wide option is quite appealing and could form part of radical mayoral platforms for land and tax reform aiding regeneration and growth.

September 2022

With many thanks to Stephen Hill