

■ CHAPTER ONE

What This Book Is All About

This book is about taxation—in particular, land value taxation (LVT)—and its possible repercussions beyond its role in generating government revenue. Our examination encompasses both the practical operation of LVT and its moral background and ethical rationale. We crystallize our exploration around a case study of Britain,¹ which has a long historical association with LVT, and where past attempts to introduce various forms of LVT have resulted in mixed degrees of success and failure. From this analysis we anticipate future prospects for such uses of LVT in Britain and elsewhere.

We do all of this against the current background of “taxation shift”: a sea change away from production taxes and on to various exactions that could be made for the use and abuse of natural resources, including land. Here we are entering the realms of eco-taxation and issues affecting the sustainability of the planet, and we consider whether LVT has a rightful place among these important measures currently under debate. The significance of these issues speaks for itself, and LVT is argued, by its supporters at least, as an ideal vehicle to encourage new approaches to taxation at perhaps a historical turning point. Finally, and for the future, this book seeks to open up a challenge for discussion from what is basically designed as an educational text and a reference source.

But why study land value taxation in Britain? This question is particularly pertinent when we admit that Britain has not, at any time over the last century or so, evolved a system of LVT that has found plausible general acceptance and has worked to reasonable expectations. The answer is that if we examine the history of the many legislative and administrative attempts to introduce and use LVT for the benefit of the community (see Chapter 5 *et seq*) and analyse “what went right and what went wrong,” we can arrive at an arguable baseline from

1. The term *Britain* refers in general terms to Great Britain (England, Wales and Scotland). There clearly are variations in operation between the countries.

which to put forward LVT proposals for Britain that might go right and perhaps not go wrong. Britain's long history of property taxation and wealth of property valuation expertise strengthen the case for this particular study, not only for its importance to Britain, but also for possible implications regarding LVT in other parts of the world (Connellan 1997, 1999, 2000a; Connellan et al. 2003).

The main objectives of this book (using Britain as a case study) are to explain the nature and background of land value taxation; to consider the ways in which LVT may be particularly relevant at the present time; and to evaluate its future.

The Notion of Land Value Taxation

What is land value taxation? How is it applied? Is it a fairer method of taxation? And what is its current importance?

LVT has both a particular and generalised meaning. In particular, LVT refers to levying annual taxes on specific parcels of land in order to gather revenue for local government (this is referred to as *site value rating* [SVR] in Britain). In essence, this is an attempt to redistribute the rates burden (i.e., the extant British property tax) and collect local government revenues on a more equitable basis (Clarke 1965, 78). The generalised meaning of LVT includes not only the aforementioned particular meaning but also policies and measures aimed at recouping to the community (called *value capture* or *betterment*) some proportion of the increases in land value that can be attributed to community activity that generates development. In addition, it takes in cognate methods for recovering infrastructure costs, whereby authorities are empowered to levy from landowners and developers some element of the cost of infrastructure (both physical and social) arising out of particular development projects.

One often-used category of land value capture for the community not included above, which we have termed *recoupment via purchase*, may be seen as a form of land banking by public authorities. This is not, strictly speaking, the same as levying taxes without ownership itself, but it has been well described as “pre-empting the accrual of value” (Grant 1999, 67).

Among the other disparate forms of taxation and recoupment of land values (which we shall examine in more detail in Chapters 5–8)—that is, targeting capital (development) gains, recouping infrastructure costs, and even recouping land values through forward purchasing of sites by the government—there is evident confusion. As has been pointed out by Blundell (1993, 22), an annual tax (such as SVR) should pick up all increases in land value over time as opposed to the one-off hits by value capture exactions consequent upon certain trigger events.

However, let us, for the moment, stay with the simplest and most straightforward form of LVT—an annual tax for funding some government expenditures. How does this annual tax operate? It is applied by means of a value attributed to the land in question—by an assessment either of annual rent or

of capital value, from which tax base an annual tax is levied on a percentage (or millage) basis.

But how does LVT differ from other forms of property taxes? First, the tax is on the land itself; this differs from the main form of extant property tax around the world, which is based on assessing the combined value of land, buildings and improvements thereon rather than on the land per se. Second, the onus of the tax is generally on the owner and not the occupier (as may be the case in some countries).

Is LVT fairer and more equitable than other forms of property taxes? LVT's proponents have certainly affirmed this through the ages, including Henry George (1839–1897), an American economist and social philosopher and a leading spokesman for the cause. A detailed review of this issue follows in the next chapter, which deals with economic theory and principles.

Why Is LVT Now Relevant and Important?

It can be argued that it is now timely and appropriate to contemplate an introduction of LVT, especially into Britain. In support, various current pressures can be identified as accumulating for a change in taxation, particularly towards a more equitable distribution of the rates burden (property tax) and thus a fairer collection of local government revenues. These mooted changes also include widening the tax base to bring in properties presently unrated and not caught up in the current British property tax, e.g., empty, derelict and unused properties. Such pressures arise from the present incidence of devolving governing and taxation powers to Scotland, Wales and (when eventually restored to) Northern Ireland, and also to the activities of various influential special-interest and political groups (e.g., “Greens,” Scottish nationalists, liberal democrats and even active “Georgist” organisations).

As has been pointed out by James Robertson (1998a, 1998b, 1999) and others, there is a growing movement towards taxation shift, that is to say, to reduce taxes on enterprise, production and income sources and move taxation towards the “cost of using the environment.” This, in turn, is connected to the whole theme of sustainability of the environment and sustainable development.² But it is also relevant at this point to note that Robertson has already recommended a whole raft of radical policies to include eco-tax reform and site value land taxation, among the connected parts of a larger package based on:

- introducing a range of taxes and charges on the use of common resources and values, including but not limited to energy and the site value of land;

2. Sustainable development is defined as “meeting the needs of the present without compromising the ability of future generations to meet their own needs” (WCED 1987).

- reducing, and perhaps eventually abolishing, taxes and charges on employment, incomes, profits, value added and capital;
- reducing taxes on incomes and profits earned from useful work and enterprise, the value they add, and what they contribute to the common good; and
- increasing taxes and charges that reflect the value they subtract by their use of common resources, including land, energy and the capacity of the environment to absorb pollution and waste.

As indicated above, the so-called eco-taxes³ are increasingly a part of this taxation shift, and the question of their compatibility with LVT has previously been examined by Lichfield and Connellan (2000c). They concluded that these two forms of taxes, although different in history and application, should be able to coexist in mutual harmony and interdependence.

But such extensions of the application and range of LVT are also heralded in the next chapter, when referring to contemporary views on Georgism, particularly the assertion from Solow:

The best way to keep George's ideas alive and effective is to develop and refine them, and to extend their range of relevance to issues of land use, urban form, and taxation, including many aspects that could never have crossed George's mind. The range of possible activities is very broad. . . . The list could be very long; this random selection is intended to indicate only how diverse it could be. (1997, 14)

His statement reminds us that we are dealing with a still-developing theme of ideas that requires continuous reexamination for its relevance to modern circumstances, the principle of which governs the structure of this book, as described below.

Structure of the Book

To deal with the above-described matters sequentially, the book is structured in three parts.

Part I presents Britain as the case study country and introduces the theory and principles of land value taxation.

Part II reviews "The British Experience." Chapters 3 and 4 describe general taxation, including current taxes on land and property for local government revenues. Chapter 5 reviews more than 100 years of attempts to introduce LVT in Britain—from 1890 to the present day. Chapters 6 through 8 describe three

3. Eco-taxation here follows the definition used by the European Commission (ATW Research 1996), namely, that it is based on a physical unit (or proxy thereof) of something that has proven specific negative impact on the environment. It can be a tax (unrequited payments to government) or a charge (required payments for which a service is provided by some public body generally in proportion to payment made), and these are examples of economic and financial instruments that are designed to modify market behaviour with a view to achieving government objectives (DETR 1994).

methods of capital value capture for the benefit of the community that are supplementary to annual land value taxation as such, namely recoupment via ownership, betterment via the town and country planning system, and contributions to infrastructure costs.

Part III, "Opportunities for Future Land Value Taxation," introduces prospective proposals for Britain, starting with the annual form of LVT (site value rating) in Chapters 9 and 10. Chapters 11, 12 and 13 review proposals for the three supplementary methods of LVT. Chapter 14 discusses how compatibility can be achieved between LVT and planning, particularly in the case of Britain, where special kinds of development control are practiced. Chapter 15 explores political prospects and feasibility of LVT in Britain. "Final Review" (Chapter 16) looks at all that has gone before and what might lie ahead, including LVT's relationship to taxation shift and eco-taxes, as well as the key questions emerging: What does all this mean? And how important is it?

Appendices A, B, C, D, E and F are fuller versions of the body text in certain chapters, for closer study and more detailed reference. These documents may be found on the Lincoln Institute Web site: www.lincolninst.edu.