

■ ANNEXE FOUR

Apportioning Land Value Tax to Hierarchical Owners

This proposed process can best be illustrated by an example of a property (land and buildings) with a hierarchical ownership extending from the freeholder down to the occupying tenant via a ground lessee and an intermediate leaseholder as follows:

- Freeholder grants a 99-year ground lease to Ground Lessee at a rent of £200 per annum (pa).
- Ground Lessee grants a 42-year lease to Lessee at a rent of £1,000 pa.
- Lessee lets to Tenant on an occupational tenancy for 20 years at a rent of £5,000 pa.

Rules for Apportioning Land Value Tax (LVT)

Freehold owner's land tax is set at x% of the assessed annual site value. All tenants and leaseholders can deduct from the rent that they pay to their immediate landlord:

- x% of the assessed annual site value *or*
- x% of the rent that they pay to their landlord, whichever is *less*.

Land Value Tax Assessment

Land value is assessed at £1,500. At 50 percent rate of tax, the land value tax liability to be apportioned is £750.

Applying the Apportionment Rules

- Occupying tenant pays the initial land value tax of £750 (£1,500 @ 50 percent) to the assessing authority and immediately deducts it from the payment of rent to Lessee. Tenant pays £5,000 minus £750 = £4,250 to Lessee.
- Lessee, receiving the reduced rent of £4,250 from Tenant, can only deduct £500 (£1,000 @ 50 percent) from the payment of rent to Ground Lessee. Lessee pays £500 (£1,000 minus £500) to Ground Lessee.

TABLE 7: Apportioning LVT to Hierarchical Owners

Party	Profit Rent Before Land Value Tax			Profit Rent After Land Value Tax			Reduced Profit Rent
	Rent Received	Rent Paid	Profit Rent	Rent Received	Rent Paid	Profit Rent	LVT Allocation
Tenant	£5,000	£5,000	£0	£4,250	£4,250	£0	£0
Lessee	£5,000	£1,000	£4,000	£4,250	£500	£3,750	£250
Ground Lessee	£1,000	£200	£800	£500	£100	£400	£400
Freeholder	£200	£0	£200	£100	£0	£100	£100
Totals			£5,000			£4,250	£750

- Ground Lessee, receiving the reduced rent of £500 from Lessee, can only deduct £100 (£200 @ 50 percent) from the payment of rent to Freeholder. Ground Lessee pays £100 (£200 minus £100) to Freeholder.
- Freeholder receives the reduced rent of £100.

Consequential Effects of Apportionment

By comparing the before and after situations of each party in relation to their individual profit rents, the distributional pattern of the land value tax can be identified in the schedule of apportionment demonstrated in Table 7. Being taxed here is the right to receive any profit rent that can be ascribed to the land value. As the latter has been assessed at £1,500, the land value tax payable of 50 percent has to be distributed among those who enjoy such land profit rents to the tune of a total land value tax payment of £750.

Somewhat analogous to the above process of distributing LVT liability throughout the ownership chain is the current value added tax, which is collected from consumers in stages throughout the business chain.