CHAPTER 3

APPLICATION AND ADVANTAGES

> As soon as the land of any country has all become private property, the landlords, like all other men, love to reap where they never sowed, and demand a rent even for its natural produce.
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> **Adam Smith**, *The Wealth of Nations,* 1776

3.1 Application of LVT

LVT may be described as a levy that society imposes for the exclusive occupation and use of a site. The use to which the site is put may or may not be for wealth-creation purposes. For instance, where a site is occupied for a purely residential purpose, the levy is still payable according to the value of the site. Also, the owner of an unused or derelict site would still pay the tax, for the site would retain its potential value whether used or not. This would discourage the deliberate holding of sites out of use for speculative purposes. As with most property taxes, there would need to be an appeals system. With LVT, valuations could always be challenged, but these would be more likely on the high value sites rather than near the margin, where the tax burden would be less.

LVT should be introduced gradually without any sudden shock, over a transition period of ten years or more during which other unsuitable taxes—for example, those that are impediments to wealth creation—could be reduced or eliminated. As LVT is proposed as a replacement tax, not an additional tax, the overall receipts from all taxes would remain the same.

All taxes have an economic or social effect. Taxes on a commodity will affect the production and purchase of the commodity—for instance taxes on trade will inhibit trading. Certain taxes are designed deliberately to affect social behaviour rather than to simply raise revenue, for example eco-taxes and the so-called sin taxes.[1] Taxes generally tend to have a negative effect on economic activity—what economists describe as a 'deadweight loss'—where the imposition of the tax may negatively affect its efficiency in raising revenue, even to the point where the burden is so great that economic activity ceases.

Most taxes suffer from this defect: income tax is a discouragement to work, VAT is a discouragement to trade, and so on. LVT would have no deadweight loss because land supply is fixed and the imposition of the tax will neither increase nor decrease supply. Neither will any increase nor decrease of economic activity on the site affect its value for the value is determined by other external factors (see Chapter 5: Causes of Land Value). With accurate and regular valuations, the tax would be easy to collect; there would be little wastage and no avoidance. For these reasons LVT may be seen as an efficient tax, and most economists agree on this point at least.

A tax on land values would bring about a reduction of values by bringing land held out of use for speculative purposes onto the market, but it would not otherwise increase the overall amount. Though the value might alter, it would, through a comprehensive valuation system, be visible to everyone, and could not be obscured. LVT would cause a shift in the burden of overall taxation away from the margin towards the centre; away from less prosperous areas onto the more prosperous, as measured by location values. Thus, it would satisfy the requirement that taxes should be paid in accordance with the ability to pay.

In an established system of LVT one might envisage the principal source of revenue coming from LVT, alongside other useful taxes, which are retained (see Chapter 10, Taxes to Eliminate, Modify or Keep). The overall tax take would vary according to government requirements, which, in the case of LVT, could be reduced due to the efficiency of collection. Where this occurred, any reduction in LVT would be measured 'from the top down', that is to say with a graduated percentage reduction inversely proportional to the site value. This would effectively raise the level of the margin and have the effect of taking more marginal sites out of tax altogether.

A Local or a National Tax?

There are two possibilities for the application of LVT: at a national level or a local level. The introduction of a national LVT would have one major advantage in that it would effect a geographic redistribution of the tax burden nationally, and so reduce the inequalities resulting from the so-called north/south divide (which is more accurately a London-and-the-rest divide). Although a national tax may be preferred in the long term, it would be a very major step, and it is generally felt by LVT advocates that a local system initially would be more feasible where implementation is concerned. Also, there are certain advantages to the introduction at a local level:

- LVT could be trialled in certain selected cities willing to support a pilot scheme.
- As LVT is primarily an urban tax, it would be well suited to local urban councils (as opposed to rural councils).
- LVT could replace Business Rates and Council Tax, which are already functioning with their own valuation systems—however defective.
- There is a better chance of explaining the principles of LVT to taxpayers, who are already paying property taxes.
- Councils could learn from successful applications of local LVT already operating, for example in Harrisburg, Clairton and Allentown in Pennsylvania, US.[2]

Business Rates are an indirect non-domestic tax based on the annual rental value of the property (land and buildings, plus fixed plant or equipment). There is already a working valuation system, updated every five years (last carried out in April 2015). A change made with any system of taxation inevitably causes some to gain and some to lose, but with an indirect tax such as business rates the problem is reduced, or at least de-personalised. For this reason, it would likely be more acceptable to the politicians—businesses do not have the vote. A land-value based business tax would also encourage investments in machinery, equipment and improvements to buildings and physical assets, as these would not be taxed, so there is a lot to be said for replacing business rates with LVT.

The Council Tax by contrast is a direct domestic tax based on the capital value of the property—the market selling price—land and building combined. It is currently based on a valuation system that is virtually defunct, not having been carried out since 1991. This could no doubt be resurrected, given the political will. Replacing the council tax with LVT would accentuate the problem of winners and losers (see Chapter 7, Winners and Losers), but I believe this difficulty has to be faced up to sooner or later; the longer it is left, the worse it will get. The defects of the council tax are explained in more detail in Chapter 7. A regular and reliable valuation system is essential. The neglect of this condition was the main cause that undermined the LVT system in Pittsburgh over the years (see Appendix 3). Another undermining factor is the granting of exemptions and thresholds, usually by politicians hoping to curry favour with the voters: One of the reasons the local land value taxes are so ineffectual in many states in Australia is because of the exemptions and high thresholds on domestic property.

A Transition Period

In all cases a transition period would be essential. Many of the objections raised against LVT are based on the assumption that it would be introduced overnight (as happens quite often when, with a change of government, the new administration abolishes some existing system and introduces its own 'improvements'). Any change to LVT would have to be gradual, measured and designed to cause the least disruption to those affected.

Especially in the case of domestic property a transition period of at least 10 years is suggested.[3] One of the problems with a longer period is in dealing with the impatience of politicians who often believe they have only five years to achieve their purposes, so education is important, not just for politicians but for the voting public in understanding the basic principles of LVT and why it would take time to repair centuries of injustice.

In Andelson's book, *Land Value Taxation Around the World*, Walter Rybeck gives an example of what not to do, with the unfortunate experience of Uniontown, Pennsylvania, which adopted and then rejected LVT in the same year, 1992. The officials introduced the two-rate system abruptly without first correcting the 34-year-old assessments, and without advanced notice. It was of course a disaster. As Rybeck notes, 'Its story is a cautionary tale of how not to introduce a two-rate tax.'[4]

A lesson could also be learnt from the botched introduction of the government's 2010 Universal Credit scheme, which had general cross-party agreement as a good idea in principle, but whose implementation was not properly thought through and has caused much unnecessary hardship, unreasonably bringing the whole idea into disrepute.

A Valuation System

There is no doubt that any successful system of LVT (or any property-based tax) is dependent on an effective valuation system being established and regularly maintained. One of the reasons for the apparent failure of the current council tax is that it is still based on the 1991 valuations, so the tax demands become ever more detached from reality with every year that passes. All politicians and local councillors know this but are unwilling to do anything about it, as they see that a new valuation would create corrections in which there would be losers, so the situation continues to deteriorate.

As well as the example of Uniontown mentioned above, another more long-drawn-out example of the consequences of neglecting the valuation system is described in the case study of Appendix 3: The Pittsburgh Experience. This recounts the split-rate system that operated in Pittsburgh from 1914 to 2001.* For the first 28 years it functioned well, with regular valuations every three years. But after 1942, with a change of administration to a more centralised control, the valuations became irregular and finally neglected, eventually causing the demise of the tax. So it cannot be stressed too much that a regular and reliable valuation process is absolutely essential to any proposed LVT system.

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* A 'split-rate' is the name employed in the US, where the tax is applied separately in different proportions to the building value and the site value.

3.2 Advantages of LVT

Regional Redistribution

In the UK, at the present time, a considerable amount of taxpayer's money is spent on regional assistance schemes aimed at depressed areas, in order to encourage economic activity and a revival in fortunes for the populace in those areas. A national land value tax would automatically address this problem. It would effect a transfer of the tax burden away from low value areas towards high value areas and so reduce the necessity for such regional aid schemes. The effectiveness of this would of course depend on the condition of tax neutrality—that the introduction of LVT must give rise to an equivalent reduction in other taxes by the same amount. Assuming that the other taxes so reduced are universal—that is, at the same rate throughout the country—then all areas would benefit, poor areas and wealthy areas alike, but only the poor areas would gain the benefit of a lower land value tax, based on location. The wealthier areas would have an equivalent increase, so the wealthier areas would gain and lose while the poorer areas would only gain. In this way there would be a redistribution, not of wealth, but of the surrender of wealth in the form of taxation.

With a national system, the total government receipts would remain the same but they would receive more from the wealthier areas than the poorer areas. This would reduce the need for assistance to the latter, effecting a saving for the national exchequer, which would benefit everyone. Regional assistance is verging on welfare, and may unfortunately be necessary, but people would prefer to help themselves through well-paid work rather than rely on welfare.

Clearly, this benefit of regional redistribution would not arise where LVT was applied only at the local level, for instance where adopted voluntarily by a town or city as an alternative to the council tax. Also, at local level there would be, in most situations, an absence of agricultural land that would be integral to any national tax. At the local level LVT would be primarily an urban tax and therefore, as previously explained, would be well suited to a limited local application. With LVT there would be a redistribution of the tax burden, according to location values, and the tax would provide local authorities an excellent opportunity to regain control over their own finances and their own affairs.

Devolution and Local Taxes

Few governments advocate the most important factor in devolution to the regions; the power to raise revenue. At the present time local government revenues derive from three sources: 52% from council tax, 31% from central government grants and 17% from retained business rates.[5] Prior to 2013 the whole of revenue from business rates was surrendered to central government, which absorbed it into the central grant system for redistribution—at the government's discretion. Since 2013 local councils have been allowed to retain 50% of business rates, and since 2017 various pilot schemes have been trialled with a view to increasing the retention allowance to 100%—which would be preferred by those councils with strong business sectors.

Clearly, local councils are beholden to central government for a large proportion of their funding, which is not a happy place to be. LVT, if applied at the local level, would be an ideal means for giving local authorities real power over their own affairs. If local authorities are not able to raise revenue to finance necessary services they become dependent on support from central government, and as Rolland O'Regan warned in his book, *Rating in New Zealand*: 'Grants and subventions from central government are the kiss of death to local government.'[6] In the ten years from 2010 to 2019, although council taxes in England have been increased by 21%, central government grants have been cut by 38%.[7] So councils are struggling to survive financially and in many cases having to cut services.

Raising revenue for local government has been an intractable problem over the years. The various methods tried—local rates, the community charge and council tax—have all proved unsatisfactory. (For a critique of the council tax refer to Chapter 7, *The Council Tax Deficiency*). A local income tax, as practiced in the US, has also been proposed as a solution. However, in the UK at least, there appears to be a general consensus that any local tax should relate in some way to property and be graduated according to the rentable or capital value of the property. Previous systems have attempted this in different ways, but none has ever directly taken into account one of the most important factors, the value of the site upon which the property stands.

As mentioned in chapter 1, the value of a property has two parts: the value of the building—the bricks and mortar—and the value of the site. A tax on the site value only would resolve many problems. It would remove the current penalty against new building or making improvements. It would encourage the productive use of vacant and 'brownfield'* sites and it would provide a natural system of gradation of relative values.

Restraint of Property Values

The presence of a land value tax would rein in the escalation of property prices and speculation based on constantly increasing location values. Prospective buyers of any property would be aware of the cost of any future land value tax requirement and factor this into their calculations before making an offer. Sellers would have to reduce their asking prices accordingly.

In the housing market, at the present time many wealthy investors buy houses because, as an appreciating asset, they provide a better return than other forms of investment. With LVT this advantage would disappear and investors would move elsewhere. Housing would return to what it should be—a place to live rather than a speculator's means of enrichment.

Although, for these reasons, in the urban context land values would be restrained if not reduced, at the other end of the spectrum—at the margin of agricultural land—values might actually increase. In his book *Location Matters,* Tony Vickers points out:

* So-called brownfield sites are usually former industrial sites that remain abandoned or considered too costly to redevelop.

> Marginal land would by definition attract no LVT, but the reduction in other taxes would bring land that is currently uneconomic to farm back into profit. Agricultural land values at what is now the margin would rise.[8]

Tax evasion and avoidance

The government relies heavily on income tax to raise revenue, but one of the great weaknesses of income tax is that it is easily subject to evasion by unscrupulous operators. This costs the exchequer countless billions in lost revenue, which of course has to be made good by the honest taxpayer. There is also a thriving legal tax-avoidance industry in which lawyers and accountants devote their time advising us how to be tax-efficient; in other words, how to avoid paying our taxes. All of this depends on the obscurity and ambiguity of the existing tax systems. LVT is a system that would be clear and obvious to all and would eliminate this unproductive activity, which represents an enormous waste of a human resource that could otherwise be employed to some useful purpose.

Taxes, in whatever form, have never been popular. They are usually seen as an unwelcome burden to be borne with resentment and avoided wherever possible. But in an enlightened society the payment of tax would be seen not only as a good but also as a privilege, in being able to contribute to the wellbeing of society. It isn't tax itself that is the problem; it is the type of tax and the means by which it is applied.