

A TAX THAT IS NOT A TAX

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Land Value Tax (LVT) is not a tax, but a payment for actual benefits received, just as the charge for a parking space is a payment for a benefit. It is the collection of part of the annual rental value of land. It is not a charge on the selling price of land, or the sale of land.

“Buskers instinctively understand the phenomenon of economic rent”
photo caption: Perfect pitch: busker at Oxford Circus, Central London

Street traders and buskers understand rental value. In most cities a busker will earn more in a busy railway station in the city centre, than at the end of the line, where nobody would bother to set up their pitch. Somewhere in between, the reward makes it just worth while. These latter locations are the “marginal sites”. The additional earnings on the better sites, over and above the margin, owe nothing to the skill of the musician. This is rental value, due to the benefits of location, economic rent. The more people that pass by, the higher the takings. The differences are due to the shape of the transport system and other local features – in other words, to the presence and activities of the community.

Buskers instinctively understand the phenomenon of economic rent, which was analysed by the economist David Ricardo when he formulated his Law of Rent. It applies universally but is largely absent from economic theory. Perhaps economics students should be sent busking or should operate a market stall for their first course assignment! Ricardo’s Law means that LVT – the collection and use of the economic rent of rent as public revenue – is not a tax but a payment for benefits received.

The benefit principle

What are these benefits? The legal recognition, protection and defence of the owner’s right of occupation, and the advantages enjoyed by the owner due to the presence and activities of the community, that give rise to the rental value. This rent will inevitably end up in someone’s pocket. If it is not collected as public revenue or by a landlord, it will be farmed by extortionists or fought over.

Land rent as public revenue

Using land rent as public revenue has many advantages. It cannot be evaded or

avoided. Parasitic speculation in the price of land titles becomes pointless, since land holding carries a liability to pay a charge proportionate to its actual present value. It inhibits corruption of the banking system through the trading of land titles, with consequential damage to the economy through boom-bust cycles.

Most of the so-called “obscene earnings” received by financial entrepreneurs are not earnings at all, since no labour has been applied and no wealth has been created. They consist either of profits made from the trading of land titles, usually concealed inside “assets” such as shares or property, or of land rent extracted by the financial system as interest charges on loans for the purchase of land titles: economic rent capitalised.

Under an LVT regime it is no longer possible to tap into this revenue stream. Income can only arise from wealth creation. The incomes that are diverted to tax havens are collected at source. Tax havens no longer have a purpose.

How much?

How much can be raised? In many countries, both in the developed and the developing world, land rent is being collected as public revenue today through property taxes in some shape or form. Their usual defect is the method of assessment: improvements are penalised, under-used land is not assessed at its potential value, and vacant and agricultural land is exempt. In Greece, for instance, buildings are left unfinished so as to avoid the tax. Even a simple switch from existing property taxes to LVT would therefore raise more revenue. And since the reduction of existing taxes would tend to drive up land rental values, a benign cycle would be set up in which the LVT tax base grew as existing taxes were phased out.

How might LVT be introduced

So long as some form of property tax is in place, a smooth and uncontentious transition to LVT is possible. There is no practical difficulty in carrying out a valuation of land and producing a set of rental values for all land. The land has to be registered, but there are many ways of getting this done. Owners could simply be required to register their property. There is no practical difficulty in collecting the revenue using the existing administrative apparatus.

In Year One of LVT, the LVT charge is levied on occupiers, based on the land value assessment instead of the present property tax. Nothing else changes. The total amounts raised can be set so that, perhaps, just over half of all bills are the same or less than in the final year of the old property tax. That will raise more revenue and minimise protests. In the case of business and agricultural premises, where

leases are often subject to an upwards-only rent revision clause, introduction of the tax must be accompanied by a regulation setting aside this clause, which is in

any case fundamentally unjust, so that tenants can if necessary renegotiate their rents downwards as well as upwards.

In some countries, the property tax is local rather than national. But LVT cannot be a local tax except for the first few years, when the rate is low and before significant cuts have been made in other taxes. Some administrative areas have, in aggregate, high land values and a solid land value tax base. Others have little. This is true of all taxes at a local level: the amount that can be raised depends on the area. The land value charge should therefore, over a few years, move to a uniform national levy.

If local authorities do not have access to the land value in their area as a tax base, how can services provided by local government be paid for? One possibility is a capitation payment distributed from the national LVT fund, with the local body receiving a pot of money to spend as they wish.

The real difficulties are political. Vested interests are powerful. In most countries, the lion's share of the most valuable areas of city centres is concentrated in the hands of a tiny elite of landowners. This gives rise to great political influence, working quietly in the background.

Objections also come from those who ought to be supportive. It seems to have arisen out of the concept of 'Rent of Talent', a notion that emerged around the start of the last century. It cast a fog of confusion over the term 'Rent'. The talents in question were those of opera singers or today's football stars. The argument goes that if land rent should be taxed, so should natural talent, thereby opening up the case for progressive income taxes. This helped the landowning interest by diverting attention from their privileged status. But 'rent' is the wrong term for the high earnings of opera singers. These are the rewards for labour: wages.

Always, the aim should be, above all, justice, and to promote the efficient use of resources, good behaviour rather than bad and reduce opportunities for fraud. LVT is a tax reform that achieves all of these.

Henry Law is a member of the Land Value Taxation Campaign
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