

Funding UBI with a tax on land

By Katy Preen / 17 May, 2018

Reprinted from: Medium.com

We need to tax the super-rich, but what's the best way to do it?



By Mike Cartmell from Singapore, Singapore (The Interlace, Singapore) [CC BY [2.0](#)], via Wikimedia Commons

One of the most common questions asked about Universal

Basic Income (UBI) is “**how are we going to fund it?**”. Based on the current UK tax structure, it could be paid for through income tax, but it would require an increase in rates at [every tax band](#). Although Income Tax is progressive, those in the lowest tax band would end up proportionately worse-off—they have less income to deduct from, and there are [more people in this group](#) than the others combined. Changing the rates of income tax is the simplest method if we stick with the system we have. But it’s certainly not the fairest way. UBI aims to reduce hardship and redistribute wealth so that everyone gets a decent slice of the pie. It would be counter-productive if we funded it through an unfair tax. We need to find another way of generating revenue while doing the least financial harm.

The more we look into the concept of UBI, the more challenges and consequences we see. UBI cannot exist alone—we will need some monetary and fiscal reform, even if we introduce it in stages to gradually smooth the transition. **But if we are moving towards a different tax regime, we need to define what that is.** We may or may not introduce it overnight, but we need to look at the end game first, if you see what I mean. I like the idea of a Land Value Tax (LVT), as proposed by [Henry George](#) in the 19th Century. An entire economic philosophy ([Georgism](#) or Geoism) has grown out of his theories, and it was championed by [Elizabeth Magie](#), who created The Landlord's Game to demonstrate the principles of this school of thought.

The Status Quo

The present UK tax system is extremely complicated and takes up a lot of time and resources to administer. Indeed, there's a whole industry devoted to it in terms of both compliance and avoidance. While this creates jobs, those employment opportunities are some of the "[bullshit jobs](#)" that UBI could render obsolete. The question then, is whether we are ready to make a change in the name of efficiency, or if we will try to resist change for as long as we can.

[The Moral Case for Universal Basic Income](#)
[Notes on the ethics of workmedium.com](#)

A more pressing reason to consider LVT is the unequal ownership of land and housing within the UK. We have a situation where investors purchase vast quantities of land and property, either leaving it vacant or creating homes that are only accessible to the wealthy. At the same time, we have record levels of homelessness and an entire generation that may never be able

to own their own homes. The value tied up in land and housing is stifling the economy and the life chances of millions of young people. Could LVT be the solution?

Magie's Monopoly

Elizabeth Magie invented The Landlord's Game, a game very similar to what we now know as the modern game of Monopoly. In fact, the modern Monopoly rules are just one of the sets of rules used in the original Landlord's Game. **She was concerned with the issue of 'land-grabbing', a practice which occurs in present-day Britain to an alarming degree.** When landlords speculate on land, buying up great swathes of real estate and then doing nothing with it while they wait for the price to go up, that land is useless—both to potential users of the land, and to the economy because the land's value is tied up in the landlord's portfolio and not circulating within the economy.

[The Landlord's Game](#)

[A parable for modern times](#)medium.com

The Landlord's game had a second set of rules, based on a single tax, or anti-monopoly. The aim of these rules was to create wealth for all players; the game would be won when the player with the least money had earned double what they started the game with. The point of having two sets of rules was educational: to demonstrate the effects of land-grabbing, and contrast it with the fairer alternative.

A Different Philosophy

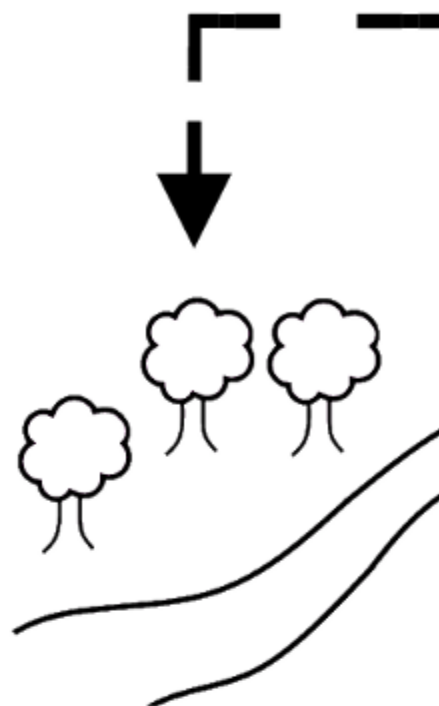
George and Magie were not concerned with Basic Income, as

their theories aimed to allow everyone to retain the wealth they generated through their labour—a different means to a more equal outcome. **But LVT and UBI are natural partners, because they have one central idea that they share in common: efficiency.** UBI streamlines the benefits system by paying a flat rate to everyone of working or retirement age. LVT streamlines the fiscal system by eliminating all existing taxes and replacing them with one single annual tax on the value of land.

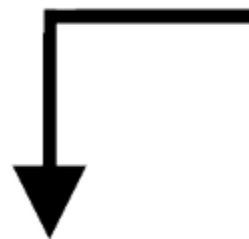
LVT also aims to make taxation fairer, and to allow workers to keep the whole value of their labour. **It is a tax on unearned wealth, while earned income is not taxed at all.** For this reason it is a progressive tax, not only in that the rich landowners pay more than the ordinary workers, but that the tax paid is based on the quantity and worth of the land that is owned. Some land will be worth more than others, for example if it is in a city centre, has good transport links, or is fertile agricultural land. But there are more benefits to LVT than just its simplicity and incentives to work.

Land with good infrastructure and amenities will attract a higher value, so it incentivises government investment in public services. It might even be the case that landowners could lobby the government for greater investment, or that they might fund it themselves, if it would bring a greater return on their investment.

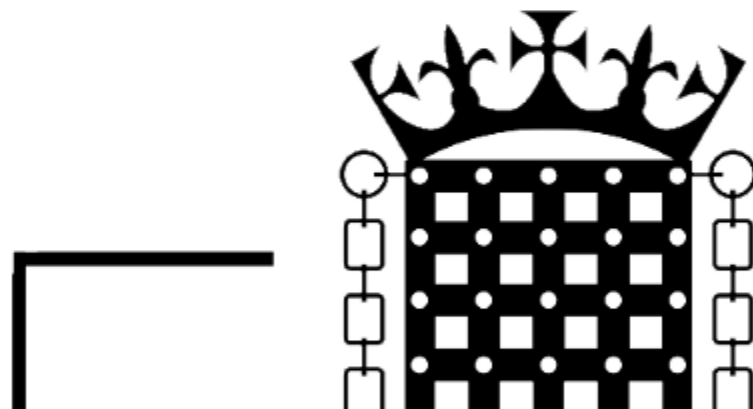
LAND VALUE TAX T



LAND



GOVERNMENT



The increased value of the land is returned to the public purse, and to the ordinary workers and users of the land, through the correspondingly higher rate of LVT. While those who use the land will pay the landlord rent for the privilege, the LVT is like paying rent to the government, which makes sense when you consider that all the laws of the nation apply on one's own land, and all of the support infrastructure, the emergency services, utilities are available to be used on that land. At present, these services are covered through Council Tax, which is regressive and penalises the poorest.

Taxes on goods and services are removed, which removes a large tax burden from low-earning workers. Whether or not retailers would then raise their prices correspondingly is unclear—it may be that the redistributed tax burden resolves this issue and others. This could only be accurately determined through simulation, or observing such a system in practice. **Radically changing the fiscal system is bound to have consequences, some of which may not be obvious.**

If a landowner chooses to hold on to land in anticipation of an increase in value, they must factor in to their budget the fee they will need to pay for owning that piece of land. **They can still do it, but there is an incentive for them to make use of the land by renting it out.** If it becomes more profitable for landlords to bring their land into use, or even if it's financially prohibitive for them to *not* rent it out, it goes some way to resolving another inequality we see in present-day Britain: housing availability.

Who Owns The Land?

This is a very complicated question, and one thing that might require a little more input than the simplified dream of a Land Tax with minimal administration. Land ownership in Britain is based on a hotchpotch of laws, bequests and traditions dating back to feudal times. Deeds have all manner of [odd terms and conditions](#) attached, and there are frequently interesting yet legally fraught quirks in a property's legacy. For privately-owned land, most of it is recorded in the Land Registry, but this doesn't necessarily reveal all: properties can be owned in the name of a company, or as part of a trust, and records are missing for [around a quarter](#) of the entries.

[How to use Land Registry data to explore land ownership near you](#)
[Land ownership in Britain is secretive, and always has been. About 18% of land in England and Wales is unregistered...anna.ps](#)

A lot of Britain is publicly, or quasi-publicly, owned: by Network Rail, National Grid, English Waterways, The National Trust, The Church, The Crown, The Ministry of Defence, etc. A Land Value Tax would not be charged on many of these institutions, but it could be levied on some, depending on future political appetites.

Tenure

When purchasing a home in Britain, you either buy the property *and* the freehold (the land it sits on), or you buy the property on a leasehold basis. **Therefore some homeowners own their land, and some are just occupying it on a long lease.** House prices are virtually identical between the different

tenures, although [legally it can make a big difference](#). Because there is little price difference between the two methods of buying a home, it means that in practice property developers can buy up housing and profit off of rising house prices without installing a tenant, or buy up a large plot and raze its contents to the ground with no decrease in value. Levying a tax specifically on the land and not on the dwelling could have a large impact on house prices, and may free up homes that were previously unavailable. But there's more:

If all other taxes but LVT are abolished, this removes barriers to buying and selling property. At present there are a lot of charges associated with buying, selling, inheriting and owning a home—all of which we wouldn't have to worry about anymore. Just the price of the home, and any costs of conveyancing, surveying and obtaining a mortgage—which are all arranged privately and there's no escaping (unless you are very savvy and/or qualified in property law). This removes any barriers that might cause owners to delay or avoid a sale, and makes the process much simpler.

LVT could even drive down house prices by encouraging landowners to make efficient & innovative use of the land area they have. For the more desirable areas, it would make sense to build upwards, creating blocks of apartments rather than lower-level houses which may have a higher rental value than other homes, but which accommodate fewer rent-paying households. Tower blocks in cities are becoming the norm in Britain anyway, so this does not pose a conflict with the character of our towns or the nature of development. There are good reasons to concentrate growth within cities and leave the countryside unblemished, but those are for another time!

Separating the value of land from the property on it would mean a change in the types of tenure held. At present, apartment-owners are used to owning their home on a leasehold basis. But most UK houses are sold with the freehold, so this is a change that we would need to get used to. While the landlord is expected to charge ground rent for those who own homes on their land, we do not know the effects of LVT on the rent

prices that may be charged. The landlord needs the ground rents to be low enough that people will consider it good value to purchase a home on their land, but high enough to offset the cost of the LVT.

Land rents will also be affected by the number of available plots—which would increase if the LVT is set at a rate to encourage maximum land use—so the landlords may have an incentive in this respect to keep rents down. It's a complicated balancing act that we are unlikely to fully understand while it is still a theory—a full simulation and/or real-life examples are needed to figure out the most likely consequences.

A Perfect Tax?

So far, so good. LVT looks like a great complement for UBI, and it has a lot of benefits of its own. But not so fast—there's no such thing as a perfect tax (except in theory), although economists have described LVT as being pretty close to one. Why do they say that? **LVT is incredibly efficient, in formal economic terms—meaning that allows the economy to produce the maximum possible output given the available resources.** It imposes no impediments to the sale or purchase of land, and allows non-land related economic activity to proceed without taxes and tariffs getting in the way of commerce.

It wasn't just Henry George and Elizabeth Magie that were so enthused by the idea of LVT. The idea had been around for at least a century prior to the publication of George's influential book, *Progress and Poverty*, and was advocated by Adam Smith as an efficient means of taxation that would not penalise tenants as it would keep ground rents low.

In addition to the effects on land prices and the ability of workers to retain all of their earned income, LVT has other positive effects that are in the spirit of UBI. An often-overlooked consequence of land-grabbing is the way that it distorts the market by allowing property developers to increase the value of land through speculation, which causes land prices to increase faster than wages. This then leads to ripple effects in the wider economy, firstly by taking a large amount of money out of circulation (as it is tied up in land values), but visibly by increasing rents to the extent that individuals and businesses cannot afford to pay them — driving businesses into bankruptcy and households into poverty. **By discouraging the accumulation and underuse of land, LVT removes other inefficiencies as well as doing no harm by itself.**

It quells boom-and-bust cycles in the property market by shifting the focus to the value of the location and amenities located on it, as well as encouraging the construction of new, cheaper homes in the places they are needed most. The stability LVT gives to the property market reduces the risks to lenders and to homeowners, who are adversely affected by a downturn, and it may increase access to the housing market for many who cannot afford it under a system with ever-increasing home values.

LVT is an easy tax to collect, in spite of potential complexities involving valuations. **Even if a piece of land changes in value, we usually know who owns it—so rates can be levied on it.** Land is a tangible asset that is difficult to hide, physically at least. Proper recording of land ownership, including rules on land owned by organisations rather than individuals, would allow us to collect more of the taxes the treasury is due and reduce the scope for tax avoidance.

An Imperfect System

One of the highest barriers to change is change itself. **People**

don't like it, it disrupts what we're used to, and it requires effort to put it into practice. But if there's a good enough reason to do it, we usually find a way. The trouble is that we leave change until the last possible moment, when we *have* to do it—we legislate reactively rather than actively. Whereas acting too early could incur unnecessary cost and disruption, acting too late costs us in lost time and productivity. But we'll never get it right until we accept that change is not just possible, but sometimes preferable—and we don't seem ready yet.

How do we convince the British to adopt UBI?

I've lived in Britain all my life, and nothing ever gets done around here.[here.medium.com](https://medium.com)

There are other disincentives to LVT, mostly for investors, who hold a lot of political sway during the present time. Local councils are currently underfunded, and so they welcome investment from construction firms and property developers. **These companies, and local and central government, have a vested interest in retaining the current system.** LVT would destroy their business model, and while the long-term view is to redistribute wealth and resources, a sudden change would probably wreck the UK economy, what with so much wealth invested and created within the financial & property sectors. If we want to reduce inequality, tanking the economy is not a way to achieve it—a more gradual approach is needed.

The financial sector, while loathed by many of us lesser individuals working 9-to-5 jobs, does contribute a lot to the British economy. And that relies on international trade and investment. A fairer and simpler tax system could put that at risk too, and we've already done ourselves in with Brexit. It's easy to talk about principles when your country's financial survival isn't at stake.

The accounting sector is a lucrative and blossoming industry because of the complex tax rules that LVT seeks

to simplify. Thousands of jobs in private firms, and within HMRC, are reliant on the current system. And wealthy individuals, investors and those aforementioned property developers, use this arcane system to retain more of their wealth. LVT removes the loopholes that allow such artistic bookkeeping, making numerous jobs redundant and forcing the super-rich to pay their taxes. Even though most British people are on wages that would benefit from a combined UBI/LVT scheme, our national mindset is that this extra burden on the rich would be unfair—I mean, we're [all striving to become billionaires](#) and we wouldn't want to jeopardise our chances, no matter how unrealistic.

The tracking of land and location values could be difficult and time- and resource-intensive. **But we would also have an army of ex-HMRC employees and accountants looking for work, so this is one problem that could be mitigated easily.** There might even be a lot of money to be made in land valuation services.

Making It Work

Like Universal Basic Income, Land Value Tax is an idea **that will take some convincing to bring people round to.** It's an opportunity to reset the clock, and properly reduce inequality. There are some elements that will appeal across the political spectrum, such as zero income tax, but a tax that targets the wealthy would be difficult to bring in with our present cultural atmosphere. But UBI looks like a plausible reality, which needs funding from somewhere. There are many options, and LVT will be easier to swallow for most people than an increase in the rates of income tax. While the super-rich will still be able to claim 0% tax on their earnings, that's not too different from the tax avoidance schemes available to them anyway. And taxing land values has other benefits to the economy aside from generating

revenue. What we need is innovators in government, as well as in business—then we might see real change.