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LAND VALUE TAX: OVERCOMING THE CHALLENGES

WHAT IS A LAND VALUE TAX?

A Land Value Tax (LVT) is the tax on the unimproved *value* of land. It is not a tax on *land* but on *land value*, therefore it is primarily a tax on urban land (some authors even suggest exempting agricultural land). It includes land that already is fully built upon: indeed the majority of the land by value will already be developed in this way.

Land Value Taxes can either be calculated as some percentage of the purchase price ('capitalised value') or on the *rent* ('rental value'). A 'full' or 100% LVT should be defined as 100% of the land rent. The rental value of land is a more stable measure than the capital value, and therefore has some potential advantages.

A land value tax is paid by the *owner* of the plot or property, rather than the tenant or occupier: in the case of self-contained houses this will be the owner of the *freehold*.

Land Value Taxes are based on the *market* value of the land, which will depend on *current permitted use*; these values can increase if planning permission is granted for new uses.

Since we observe the value of land *including the buildings and other improvements on it*, a deduction needs to be made for the assessed value of the buildings upon a plot. Assessing the 'rebuild cost' of a building is already done for home insurance purposes. The base of land value tax can therefore be calculated according to the total property value minus the building value. This procedure avoids the dangers of per-unit-area taxation which could unduly punish large gardens in the same geographical area.

LVT IN THE HISTORY OF ECONOMIC THOUGHT

Early Political Economists

The French '*Physiocrats*' (Quesnay 1758) argued for a 'single tax' on land rent. This would be a tax on the whole of the rent and it would be used to defray the expenses of government, therefore eliminating the need for other taxes.

Thomas Paine, in his *Agrarian Justice* (Paine 1795) argued for a Land Value Tax to pay for what would now be termed a 'basic income'.

The Classical Period

Land and LVT was a staple of the late 18th century and 19th century classical economists' thinking. Land, distinct from capital, was considered one of the three factors of production, along with labour. Adam Smith (Smith 1776), David Ricardo (Ricardo 1821) and Karl Marx (Marx and Engels 1848) all argued for the introduction of LVT, or in general the capture of land rent for public purposes. Smith argues (Smith 1776):

"Both ground-rents and the ordinary rent of land are a species of revenue which the owner, in many cases, enjoys without any care or attention of his own. Though a part of this revenue should be taken from him in order to defray the expenses of the state, no discouragement will thereby be given to any sort of industry. The annual produce of the land and labour of the society, the real wealth of the great body of the people, might be the same after such a tax as before. Ground rents and the ordinary rent of land are, therefore, perhaps, the species of revenue which can best bear to have a peculiar tax upon them."

John Stuart Mill argued for an LVT on the 'unearned increment' of land value (Mill 1848), the idea being that an individual who just purchased land should not have the whole value of this land confiscated, but should instead only pay a tax on the unearned increase in value of that land over time.

The American economist and writer Henry George argued eloquently for a land tax as a single replacement for other taxes in his *Progress and Poverty* (George 1879) developing and *reiterating the earlier calls by the Physiocrats for LVT as a 'single* tax'.

We can see three distinct fundamental approaches to LVT:

1) A full LVT to remove (all) other taxes (Physiocrats, Henry George)
2) An LVT to pay a lump sum to all individuals on reaching adulthood or retirement and an on-going basic income (Thomas Paine)
3) An LVT only on the 'unearned increment' in land values (John Stuart Mill).

Land and LVT in The 20th Century

By contrast to the 19th century, the 20th century disputes between the neoclassical, Marxist and Keynesian economists largely ignored land on both sides. The preoccupations of 20th century economics did not include land, perhaps because of the focus on production and money, perhaps because land - at least *agricultural* land - was becoming less important in western economies.

Whilst agriculture occupies a small and declining portion of GDP (between 1-2%), urban land is highly significant. Property, mainly domestic property, occupies a significant portion of tangible wealth, and the 'locational' (i.e. land) value is the most significant part of this.

It was recently reported by the Office for National Statistics (ONS 2017) that approximately half the total UK net worth was in the form of land. Furthermore, the same source says the rate of *increase* in land value over the past 20 years has been twice that of the rate for assets *on* land.

When we speak of land in an urban context, we are considering not only undeveloped land, but also plots on which buildings already stand. Thus, we can speak of the total property being split into a portion which can be considered the building value - already valued in the context of insurance as the 'rebuild cost', and the land value itself. The land value is that which remains after a bomb has flattened all buildings on a plot while leaving those on the surrounding plots untouched. Normally therefore, land value is somewhat contingent on plot size; since its calculation involves the notional demolition of all buildings within the plot, but still involves land value benefit or disbenefit from buildings around it.

Piketty: Inequality of Wealth
The work of Thomas Piketty (Piketty 2014) has focused on increasing wealth inequality over the very long term, and in particular the inequality r > g, where the rate of return on wealth exceeds the growth rate of the economy (and of wages). Recent work (Jordà et al. 2017) has confirmed that the long term rate of return on equities and property is around 7 per cent per annum, approximately *double* the long term growth rate in the economy.

The focus of Piketty suggests a consideration of monopoly assets, i.e. land and (large) companies. Land can be considered a monopoly because if the demand for land in a particular location increases, there can be no increase in the supply of land in that location.

ARGUMENTS FOR LVT
Economists have frequently suggested this tax, due to its theoretical advantages. There are many arguments for LVT. We describe just some of them here.

But first we must define what is *not* LVT, because more generally there is much confusion as to what exactly 'land taxes' are. LVT is an annual charge based (normally) on the rental value of land. Most other land taxes are based on some form of transaction in land: award of planning permission; ownership transfer price; 'betterment' value; or the value of 'improvements' to land (such as buildings) in addition to the bare land site. Most UK property taxes are also levied on occupiers (if they exist), not owners: LVT is always paid by the beneficial owner(s) of the site. The economic impacts of LVT are very different to those of other land taxes.

The first argument for LVT is the efficiency argument. The general analysis of LVT is based on the concept of deadweight loss, which is to say the reduction in welfare associated with a tax. Whilst taxes applied to other goods will result in reducing their supply, taxes on land value do not. This is because land is fixed in supply. Other taxes tend to reduce economic output, by changing the incentives to provide that which is taxed. Land value taxes on the other hand affect only the price, because land is fixed in supply.

The second argument is for better land use. LVT discourages the holding of land for speculative purposes at profit (e.g. by supermarket companies or house builders that hold onto land without development) as long as all land is taxed on the same basis, including vacant (undeveloped) sites. At worst, it would have no effect on land use; at best it might improve the efficiency with which land is used.

Thirdly, Henry George eloquently wrote that nature is rightfully the common heritage of all men. Therefore, if you were to construct an ideal society from first principles you would not allocate private land to some people and others.

This argument also works, in a different form, based on the path forward from a given *status quo*. A tax on unearned increments is fair, because the landowner benefits from the appreciation of the value of the land caused by public infrastructure investment and private enterprise, without himself causing that appreciation. An appropriately introduced land value tax could then reduce inequality of wealth and income. There is the well-known economic idea of an externality which is some external effect of some economic activity on some other agents not party to the activity. These effects happen often in land value. For example, land value can be increased by a new transport hub or reduced by the placing of an incinerator nearby.

Fourthly, LVT, if it is a local tax, it will encourage local authorities to maximise land value. In line with current practice in the UK, surpluses gathered in more productive locations would be redistributed to less productive locations.

Fifthly, if economic output is demand limited, then redistributive taxes may increase effective demand, thus increasing economic growth. Since those with assets tend to save more of their income and capital gains, redistribution from the asset rich to the poor will raise effective demand.

EXPERIENCE OF LVT
History of Land Value Tax in The UK
Whilst the UK does not currently have LVT, there have been land taxes in the past. However, these were not uprated as values increased so they became trivial with the passage of time. Following Henry George, there was a movement for LVT resulting in the 'People's Budget' of David Lloyd George. This was rejected by the House of Lords, leading to the Parliament Act of 1911, which limited the ability of the upper house to delay finance bills. The First World War intervened, and issues with valuation led to the eventual abandonment of this initiative to implement LVT.

However, after World War II, the Town & Country Planning Act nationalised development rights, and a national system of betterment charges were proposed - a tax on the appreciation of land value. In the event, the charges were never introduced. Three attempts were made to impose taxes on development by successive Labour governments; and three times these were repealed by Conservative governments.

These measures had the opposite effect to that which is claimed for LVT: instead of incentivising appropriate development, they acted as a brake on development by imposing costs on developers at a time of least cash flow for them. This also had the effect of reducing effective land supply and therefore raising land prices.

Eventually, the so called planning obligation on developers to pay for infrastructure and the cost of additional services were formalised in Section 106 agreements, or since 2011, the option to impose a Community Infrastructure Levy (CIL) based on net development area at a fixed tariff. In 2007/08, £4.8bn was raised by local authorities from such agreements - less than 1% of total government revenue in that year, a very low achievement compared to what has been possible in other jurisdictions.

The primary problem with such levies being linked to the granting of planning permission is that they are one off and are not imposed on existing property owners who benefit from a 'free ride' in terms of any value uplift after development and infrastructure investment.

This is a problem shared by the Stamp Duty Land Tax (SDLT), now only in England, although adjustments in 2014 have shown it to be an effective tool in changing behaviour (in relation to the buy to let market), as well as raising revenue. In Scotland the Land & Buildings Transaction Tax (LBTT) is following a similar path. Other forms of property tax in the UK included a tax on imputed rent from property in the form of "Schedule A" income tax, until this was abolished in 1963 (Wadsworth 2014).

Throughout the modern post-industrial period and through the 20th century until 1990, there was a system of property rating. Failure to revalue for rating in the 1970s led to the degradation of the system and its replacement by a Community Charge (or Poll Tax) based on *per capita* residential occupation, with rating taken out of local government control for non-domestic property as "Uniform Business Rates", set by central UK and later devolved to national governments.

Protests over the regressive nature of the Poll Tax led to its hurried replacement in 1992 by a 'bastardised' form of property tax - the Council Tax - which retains a large measure of regressivity and in which homes are assessed in bands of value that (except in Wales) have not been re-assessed since 1991. The impact per adult resident of Council Tax is highest for those living in the lowest value band and lowest for those living in 'mansions' of the highest band.

There has also been experience in the UK of using the increase of property values created by infrastructure to fund new underground rail lines in London e.g. the Business Rates Supplement to raise £4.1bn for Crossrail (London City Hall 2018), and the Mayoral CIL. Most recently there has been legislation, under the Coalition Government of 2010-15, for a form of Tax Increment Financing (TIF), in which forecast increases in assessed values of non-domestic properties (mainly their land value increase) within a defined geographic area that are attributable (in theory) to the creation of new infrastructure can be hypothecated to fund that infrastructure for up to 25 years (HM Treasury 2010). Although widely used in the US, very little use of TIFs has so far been made, although legislation was enacted first for Scotland (Scottish Government 2010).

Revaluations for UBR are by law normally every five years, although the 2015 revaluation was deferred for two years. The longer the period between revaluations for any *ad valorem* (on the basis of value) property tax, the greater the consequential changes to relative tax bills and hence the greater the likelihood of challenge to the valuations and protests about the tax. Senior tax administrators have admitted both that the cost of dealing with appeals to revaluations can be almost as great as the cost of the revaluation itself and that annual revaluations are both feasible and possibly no more expensive overall. But UBR is reaching the point where many regard it as no longer fit for purpose.

International approaches to LVT

Denmark by contrast manages to value property, and the land on which it is based, every two years. Denmark has had a mixed system, with both overall property values and land value being taxed, despite having been significantly scaled back in the 21st century. Some of the experience in New Zealand suggests that it is important to 'scale' valuation to up-to date levels.

The three Baltic States all introduced forms of LVT as they emerged from Soviet rule in the 1990s and endeavoured to establish a property market alongside a sensible modern public finance system. To an extent these were modelled on Denmark, but help also came from Sweden, which has a very modern property tax system that values land separately from buildings.

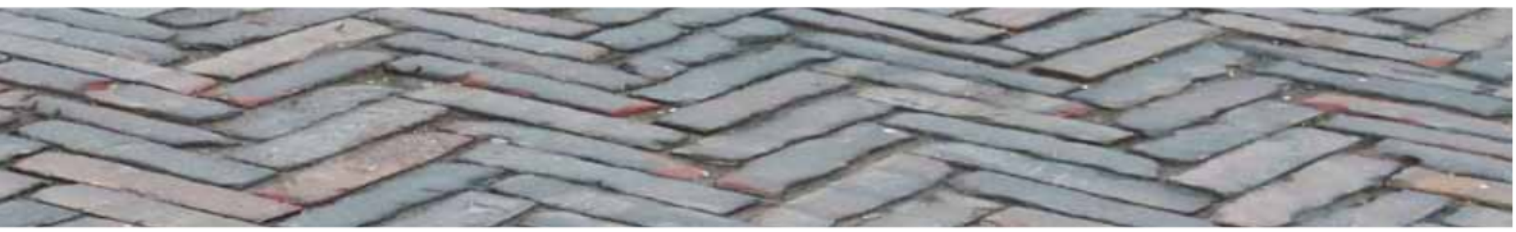
This system is also present in most of North America. An American Foundation – *the Lincoln Institute of Land Policy* – supplied much of the advice that the Baltic States considered during and after implementation.

CHALLENGES OF LVT

Technical Challenges: Valuation

Implementing an effective valuation system is essential. It should be noted however, that a tax can be defined in many ways. It is more important that a particular definition of the tax liability is objective than it exactly matches the economic land value. Here we give some possible approaches to valuation and tax definition:

It is possible to set the land value tax based on some percentage of the rental value, the cost of renting the land, or the capital value, the cost of purchasing the land (although as we shall see, rental value has some advantages). In both cases, it is necessary to separate the value of the buildings from the value of the land.



One approach to valuation is to find the total property (rental or capital) value and then subtract off the rebuild cost of the property. This deduction for rebuild cost in turn could be:

1) Directly estimated by a surveyor (or)
2) Estimated based on GIS data
3) Based on a formula proportional to habitable area
4) Based on a formula by house type
5) Based on a formula proportional to habitable area multiplied by a quality factor (for example based on the energy efficiency rating)

The fact is that, while there are few if any jurisdictions that offer a fully fleshed model of LVT, there are plenty that routinely carry out regular statutory assessments of land value. These hold land value as distinct from full (land and buildings) property value for property tax purposes. There is some evidence in these jurisdictions that the land element of tax assessments is at least as robust - measured by its resistance to successful appeals - as the buildings element.

The experienced English rating valuer who carried out trial land valuations for studies designed and managed by one of the present authors (in Liverpool in 1999 and part of Oxfordshire in 2003) concluded that valuation for LVT would present no serious difficulties for his professional UK colleagues. This was despite never having carried out such work before undertaking these studies and being denied access to publicly held property data that he would have been able to use had the studies been government backed.

Interaction with The Planning System
Any system of land value taxation would need to consider the interaction with the planning system. The UK has a particularly stringent system of planning control. This includes green belts around major cities. There are also conservation areas with even stronger controls.

Land is a heterogeneous asset, as every bit of land is different in its own way. The constraint on high quality land can be dealt with by building vertically, but that is constrained by the planning rules as well as local objections from potential neighbours. High quality land in the centre of cities is always scarce, and land values interact with transport costs.

Technical Challenges: Positive Externalities Created by Land Use
As we mentioned, one way to view LVT is as a payment for the positive externality benefits received by the landowner thanks to public infrastructure provided nearby, the economic activity in the neighbourhood, the architecture and the sense of community. In short, a land owner receives a benefit from public goods nearby.

But if there exist public goods, and those public goods are created by various uses of land and increase human well-being and land values, then private landowners can also create public value as well as benefit from it. In other words, as well as *benefiting* from a positive 'externality', landowners can also cause positive externalities (or rarely cause negative externalities) by providing (diminishing) public goods. These can include things such as good architecture, free services and community meeting spaces.

The planning system is a useful way to (hopefully) promote public goods in the use of land. In practice, it often doesn't provide much positive incentive for private agents to provide public goods; rather it is intended to prevent the diminution of existing public good provision.

Political Challenges: Vested Interests
The primary challenge to LVT is traditionally a political one. Those who would pay it are rich and tend to have resources to challenge it - often by wheeling out the argument that the asset-rich, income-poor widows will be driven into penury. If an LVT or a betterment charge is implemented, this could then be reversed by a later parliament, as happened three times in the 1970's and 80's. Henceforth, any form of LVT needs to attract a measure of cross-party support to secure a sustainable future for itself, with the argument being more about *how* to implement it than *whether* to.

Mancur Olson has described the collective action problem as thus: that the general interest can often be overridden by narrow sectional interests, since the sectional interests have a strong concentrated interest in overwhelming the common good, through lobbying for example.

Political and Economic Challenge: Transition
The fundamental argument for LVT rest on two basic arguments: LVT is beneficial to the economy, and LVT is fair. One might then argue for a large LVT or even a *full* LVT, as did Henry George. The problem then, however, is that the fairness and benefit of an immediate 100% LVT in the *short term* is debatable. The likely effect of an LVT will be increased payments for tax in high land value areas. These are also likely to cause a reduction in the capital value of land, and of property in total.

OVERCOMING THE CHALLENGES TO LVT
Political objections can be reduced by the adoption of various devices to mitigate or remove the perceived (or actual) loss to most voters and interest groups by adopting one or more of several devices that have been used in other tax jurisdictions:

1) *Exemptions.* These may be given to certain categories of land use (e.g. conservation land, public parks), or to land below a certain value per unit area, or to categories of user (e.g. charities or public bodies). All such exemptions introduce distortions to underlying values of land sites - including to sites adjacent to exempt sites and potentially cause inequity, diminished economic and market efficiency, and perverse incentives. For

example, some conservationists in New South Wales oppose LVT because farmland is exempt (as a result of lobbying by farmers) but conservation land is not! In the US, all government bodies and charities are given exemption from property taxes for all property they own irrespective of the use to which a site is put. This introduces huge distortions. Any exemptions should be tied to the use category and not the owner category.

2) *Variable rating*. Many countries adopt differential rates for different categories of land use or for parcels of different size bands. Typically large sites (e.g. in Jamaica) pay a higher rate per unit area than small sites of equal value. Also high value commercial use sites pay a higher rate than residential or agricultural sites. This has a similar effect to exemptions and should be avoided because it distorts the underlying value.

3) *Tax-free allowances*. Some jurisdictions in the US and Taiwan use a 'Homestead Allowance' for owner occupied sites (principal residence only). This device is particularly useful in countering the 'asset-rich, income-poor' situation (also known as 'poor widow syndrome') for any annual property tax. If the property tax is collected through the income tax system and the homeowner has 'unused' earned income allowance that can be merged with the Homestead Allowance, it can reduce or even eliminate the amount of tax due overall. It is arguably justifiable on ethical as well as political grounds, because every human has a right to shelter and someone who is supplying their own home deserves to have that 'self-help' acknowledged. Buy-to-let property owners cannot benefit from this unless they transfer a share of the underlying equity in the site to their tenants, which has the additional political benefit of helping to increase the number of homeowners.

4) *Deferment*. If a homeowner cannot pay the tax from current income, it is possible to 'roll up' the debt (with or without interest) until the site is sold, or re-mortgaged or the owner dies. A charge on the title would secure any tax due.

Transitional Justice and Financial Stability

Broadly, there is one major issue. To capture the full benefit of LVT, one needs a tax that is responsive to land rental values, so that a large percentage (ideally 100%) of the increase in rents caused by, let's say, a new railway are captured by the public purse. But imposing a 100% LVT would likely massively reduce house prices, leaving many in negative equity. Furthermore, many have large mortgages, and people would now be paying both rent and a (presumably large) LVT in high-property price areas. Defaults on the mortgages would combine these two effects: the cost of the tax would cause financial problems with those with large mortgages, leading to more repossessions, and the decline in capital values would lead to difficulties for banks repossessing the underlying property.

A 100% LVT can also be argued to be unjust. Consider someone who has saved diligently all their lives, paying income tax as they go. Then imagine a new government introduces a 100% LVT. Not only will the individual have paid tax on his income, he will have also had the land component of the financial value he has saved confiscated by the government.

The obvious answer to this is to introduce an LVT slowly and at a low level to begin with. This, however, captures little of the real advantage of an LVT, which is to remove speculation. We propose two solutions: one to capture 100% of the Land Value uplift without increasing in the short term the property tax (Council tax in the UK) that individuals pay; the other reforming the financial system by replacing mortgages with LVT-like payments.

New Possibilities for LVT or LVT-like Systems

We suggest two notions here to overcome the political challenges associated with LVT. The first is related to J.S. Mill's idea of trying to capture the 'unearned increment' in Land Values, as opposed to appropriating the full value. The second is a method to reform the financial system by replacing mortgage interest payment to something like a land rent.

NORM-BASED LVT

Norm-based taxation is the idea that it is desirable to have the full economic effect of an LVT without changing the initial *level of tax* from existing levels.

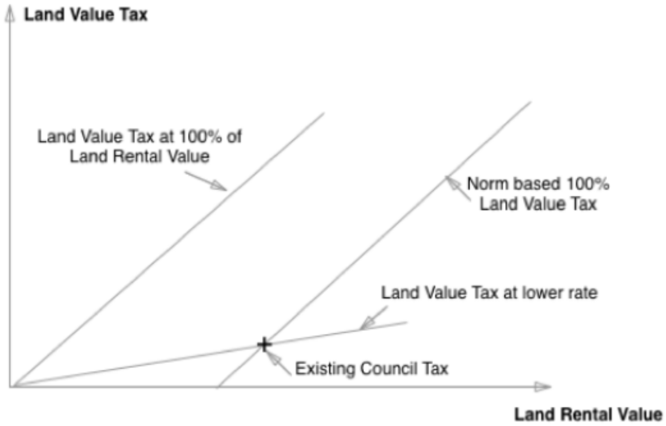


Figure 1:
Three methods for LVT: full value, lower rate, and norm-base.

Whilst proportional taxation (of anything, e.g. a LVT) has *one* rate, the conversion between the underlying quantity and the tax paid), norm-based taxation is composed of a tax rate and a regular lump-sum transfer. In this case the regular lump sum transfer would be made to initially equalise the tax paid in the new system as the same old system. So therefore, if there is no change in underlying rental values, then the tax paid in the new system would be the same as that paid in the old system. It is only if rents *change* that the tax paid would adjust. Over time, incomes tend to rise and with them, rents. You would therefore expect that such a council tax would over time raise more revenue. It would also prevent land itself from making an excessive return.

Norm-based taxation distinguishes between two different forms of revaluation: initial revaluation and indexation. Initial revaluation is the process of updating the values of property such that they are accurate to the present; indexation is the process of updating those values on an on-going basis. Under the norm-based system, an initial revaluation would be completed but would not change the initial tax paid. Rather this revaluation would be used to establish a baseline. Market rental values would be used to then update the tax paid over time in a dynamic way as rentals increased.

Over a set period (perhaps 25 years), the arbitrary lump sum payments would be eliminated and replaced by per capita rebates, perhaps a combination of a homesteading allowance and/or a citizen's dividend (basic income).

LOCATION VALUE COVENANT

Location Value Covenants (LVCs) are a policy instrument intended to replace the system of commercial bank lending on residential property (Wrigley 2010; Wrigley, Upstone, and Smith 2017). Mortgages would be replaced by LVCs. In effect, a public institution (such as the central bank or a local building society) would purchase the land for your benefit and you would pay rent for the privilege of living there. You would still own the building on top. The version of LVCs described here is this authors' but is based of Wrigley's original.

Objectives of LVCs

The objective of LVCs is to increase the proportion of the land rent, which is socialised i.e., that fills the coffers of local authorities and community owned financial institutions, rather than privately owned banks.

LVCs allow the *rapid* transformation of the financial system, to *both* be dominated by government/socially created money rather than commercially bank deposits *and* at the same time capture land rent for public purposes. This would achieve both the objectives of *Positive Money* (and other similar money reformers) and supporters of the ideas of Henry George, detailed elsewhere in this document.

LVCs could be deployed to capture the land value gain associated with new infrastructure, for example new underground lines in London, through a process of (compulsory) purchase of land near the new stations. Then, as the rent and land value rise due to the new infrastructure, this value would be captured by the institutions that created it.

LVCs are a borrowing facility by the authorities. One commonly cited issue with Land Value Tax (LVT) is its impact on 'asset rich, income poor' individuals (sometimes known as 'Devon Pensioners' or 'poor widows' in large houses). But if these individuals are asset rich, then they own outright sufficient land underlying their houses that they can in effect pay for any increased LVT bill in assets rather than in cash. Instead of paying the Land Value Tax in cash terms, they would defer this tax until death, paying only a small rental payment on the total quantity deferred. In extreme cases, the house would become formally the property of the local authority - in effect a council house - and the resident's estate would be liable on death for any arrears, but the resident need not be evicted.

Relation to Existing Mortgages: A Quick Briefing on Money

At present in the UK, commercial banks are permitted to lend to private individuals to purchase houses. Loans secured on homes are called mortgages.

A mortgage is a lending contract between a bank and you. The bank provides you with money (bank deposits), which you use to help to buy the house. These bank deposits are then transferred to the account of the person from which you are buying the house. You (the house buyer) promise to repay the bank both the original amount (the 'principal') and all additional interest.

Since the loan is 'secured' by the underlying house, if at any time you fail to provide the required payments over a considerable period, the bank can take possession of the underlying house.

It's important to note that bank deposits provided by the bank are both the dominant form of money in the system and are themselves rather strange. In formal terms, they are not base money but rather a *promise to pay* money on demand. But because the banks act with reciprocal relationships with other banks, those IOUs can be spent within the system of banking in any particular country.

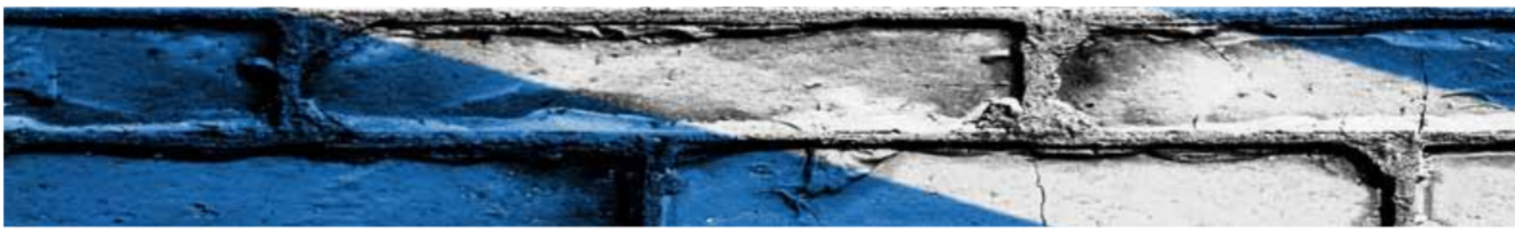
Oddly, the bank itself does not need to have any 'money' itself to lend you money. This is because the 'money' it creates (the bank deposits) are an IOU from it to you; IOUs which the bank can create out of thin air and which you can use to buy the house. The bank however does need to attract deposits or to borrow in the interbank market when the bank deposits generated are spent used to purchase a house from a homeowner at another bank.

What are LVCs?

Location Value Covenants are a sort of land sale and leaseback arrangement between an individual who wants to purchase a house, and a state-supported non-profit social institution, such as the central bank or a local building society.

Like bank mortgages, these LVCs are a contract between an individual and a financial institution used to assist individuals in purchasing property or in replacing existing mortgages.

In simple terms, a LVC is rather like a sale-and-leaseback arrangement on the underlying land. Instead of purchasing a house with a mortgage, you sell the underlying land to a social institution and thus pay rent rather than interest.



DIFFERENCES BETWEEN LVCs AND EXISTING MORTGAGES

Difference 1: Where Does The Loan Come From?

Unlike a bank mortgage, but like a loan from a building society, location value covenants are not provided by profit-seeking private institutions. Rather they would be provided either directly by the Central Currency Issuing Authority (the Central Bank in current system) or by local mutual, Community Land Societies, modelled on building societies.

Difference 2: The Interest Paid

Under a location value covenant, the interest paid in the long term would be equivalent to the rent payable on an equivalent value of land. So if the house cost was £400,000 divided into building value of £200,000 and land value of £200,000, the LVC could be on a maximum of £200,000 (100% of the land value). An LVC for this full amount would pay rent at the same rate as the assessed land rent.

Difference 3: Tax Paid

LVCs could be combined with a Land Value Tax. Assuming that 100% of the land falls under the LVC, and that a LVT is then imposed, the *central bank* or the *community land society* would be liable for the LVT, not the original owner of the land. Some of the 'interest' would go to the tax authority.

ALTERNATIVE OPTIONS FOR FINANCIAL SIDE OF LVCs

So what institutions would issue and support LVCs? Should LVCs be issued using 'Base money' (central bank reserves) or conventional 'bank deposits' issued by a government-owned bank or mutual? Does it even matter? Are the two different in any respect?

This is a difficult question. But we can say that option 1 increases the quantity of bank reserves in the system, the other does not. Let us first explain how the two options would work:

Option 1: (Central Bank direct purchase)

The central bank creates new base money. It uses this money to purchase land, and the money is used to pay off the mortgages outstanding on the land. In this case, the bank loan is cancelled out (repaid) and the loan as an asset on the bank's balance sheet is replaced by central bank reserves.

The net result is that now the government has a land asset (a result desired by followers of Henry George), and the bank deposits are 100% backed by central bank reserves (a result desired by followers of Positive Money).

An optional extra could be that the bank fulfils no useful function, so both sides of the balances sheet of the 100 percent backed reserves could then be usefully transferred to a new 'central bank electronic money' institution (presumably the central bank itself).

Option 2: (Community Land Society)

In this option, a new sort of financial institution is created, the community land society. This would have the capacity to create money, in the same way as commercial banks can, and would also have central bank support, again similar to commercial banks.

The difference would be that each branch would be a community focused mutual institution, aiming at improving the local area and owning land. It would be therefore a cross between a commercial bank (but not commercial), a building society (but with the capacity to create money, under guidelines of central bank), and a community land trust (owning land). In this case, there would be new credit created and new money.

Transitional Arrangements

Note that it is intended that these arrangements are intended to replace bank mortgages. Procedures would therefore need to be put in place to phase out banks issuing mortgages, or to discourage the practice through taxation.

Also note that the land rent on some land is likely to be higher than the current mortgage rates. For transitional reasons, it's probably best to have current interest rates on the new LVCs equal to existing mortgage rates, with the shift to the land rent yield taking place over five or so years.

CONCLUSIONS: PUTTING IT ALL TOGETHER

This paper argues that a Land Value Tax is a fair, economically efficient and practical tax to be implemented in the UK. In order to capture the full uplift in land values we outline *Norm-based Taxation*, which allows the full economic effect of capturing land value uplifts to be achieved straight away, without massive changes in bills. An additional small national LVT could be imposed on top of this as a policy tool by the central bank. And in order to reform the financial system, we present *Location Value Covenants*. We also provide more detailed suggestions for how valuation and other aspects of policy can be put in place.

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A note from the Land&Liberty editors:

In 2017 The Scottish Land Commission invited tenders to investigate international experience in land value taxes to identify possible policy options for Scotland.

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