LONDONASSEMBLY

Planning Committee

Tax trial

A Land Value Tax for London?

February 2016

Planning Committee Members

Nicky Gavron (Chair)	Labour
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Tom Copley	Labour
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Role of the Planning Committee

The Mayor of London has a significant strategic role in planning the future shape of London – publishing the London Plan and shaping and influencing the largest scale developments in the city. The Planning Committee's role is to scrutinise the detail of the London Plan and the Mayor's use of planning powers, and to examine matters of importance to London as they relate to planning.

This Rapporteur investigation

The Greater London Authority Act 1999 gives the Assembly the power to investigate and prepare reports on matters of importance to London. The Act also enables the Assembly to arrange for any of its functions to be undertaken on its behalf by a Committee or by a single Assembly Member. A 'rapporteur review' is the term used to describe when this function is undertaken by a single Member of the Assembly.

On 17 September 2015, the GLA Oversight Committee appointed Tom Copley AM as a rapporteur, to carry out an investigation into the case for and against a Land Value Tax for London.

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Rapporteur’s foreword

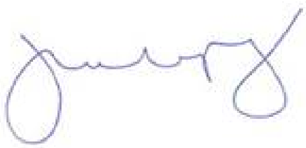
The greatest challenge facing the next Mayor will be achieving a step change in the level of housebuilding in London. Last year we built fewer than half the number of homes the Mayor's own estimate says is needed to solve the housing crisis over 20 years. Clearly, new and bold thinking is required.

This report seeks to offer the next Mayor a potential solution, by examining the argument for and against introducing a Land Value Tax in London. Land Value Taxation provides incentives for bringing land into more productive use, and discourages keeping land empty or derelict. Thus, it would have serious potential to bring more land forward for development, including for housing. There are examples from cities around the world that have brought in Land Value Taxation that suggest this would indeed happen.

Our conclusion is that the next Mayor should fund an economic feasibility study and, subject to a positive conclusion, request the powers from the Government to trial a Land Value Tax in part of the city.

The potential of introducing Land Value Taxation in this country has been discussed for more than a century, and has supporters from across the political spectrum. Economists like the fact that it is highly efficient, with minimal distorting effects on the market. Of course, we recognise that making such a radical change to how we tax land and property would not be without difficulty.

This report looks at both sides of the argument, and offers the next Mayor a clear course of action to pursue.



Tom Copley, AM

Rapporteur for the Land Value Tax review

Executive summary

London's record population growth reflects its success, but it also creates an urgent need for more homes and infrastructure. This report examines the case for and against introducing a system of Land Value taxation to encourage the required development.

The Mayor and the London Assembly have seen some success in persuading Government to grant London greater fiscal devolution. But, as the London Finance Commission concluded, we need to explore further devolution and the potential for new taxes to encourage development and raise the capital required to support future growth.

Land Value Tax (LVT) may be one way of accelerating the new house building London so desperately needs. Although not widespread, some cities and countries use LVT as an established mechanism of funding regeneration and city growth.

In the UK, the current property taxation system has characteristics that, in some circumstances, encourage inefficient land use, deter development and make land banking more likely. In extreme cases, it can encourage demolition of buildings, or continuing vacancy, when reduced rates or zero business rates are applied to empty or derelict land.

LVT has the potential to overcome these drawbacks and deliver higher levels of development to fund London's growth. It could, in the first instance, replace council tax and business rates. LVT would be a tax on land, payable by the landowner, at a rate of tax which is determined by the value of the land in its 'optimum use' (as decided by a public authority) - as opposed to its actual or current use.

Some sites in London are currently under-utilised. For example, they may contain car parks or plots with long-demolished buildings, when they could be more appropriately used to meet our housing need. This change of use could be achieved more quickly if such sites were taxed appropriately. One data source identifies 1,973 hectares of land currently not being used for housing that are potential sites for residential development. These sites might accommodate another 276,000 new homes, and potentially many more. This would provide at least another seven years housing supply to support London's efforts to meet the housing challenge.

For LVT to work, land ownership must be established, sites valued and optimum land use identified. None of these tasks in themselves present unsurmountable challenges - apart from the last one which is not currently a function of the British planning system.

If implemented in London, LVT would remove the city's reliance on much Whitehall funding; would provide greater flexibility in promoting and encouraging development; and result in community benefits when land values increase as a result of public investment.

However, introducing an LVT would require a dramatic shift in the approach to raising taxes in this country. Commentators point to a number of practical challenges that might prove too administratively complex to implement as well as politically risky to introduce as the changes creates new "winners and losers". Critics are also concerned that there is no strong economic rationale for such a tax. And those against the idea of LVT point to a range of alternative ways of raising funds and encouraging development – a number of which are already available to the Mayor and in use in London today.

The need for new mechanisms to fund London's growth is clear, and the current appetite for devolution, especially to directly elected Mayors, is leading to greater local innovation in funding and delivery across the country. In London, a pilot LVT scheme, possibly centred on the new Old Oak Common and Park Royal Development Corporation, could be a major step towards incentivising land owners to develop their land in alignment with the Mayor's strategic vision.

The report recommends:

- The new Mayor should establish what powers are necessary to implement and operate LVT to replace the three basic property taxes: council tax, business rates and stamp duty land Tax.
- The new Mayor of London should commission an economic feasibility study to establish the likely yields of LVT compared with the existing property taxes, and estimate the impact of LVT on different land uses within the area.
- That the Mayor should, subject to the outcome of the feasibility study, trial LVT in an area of London to test the impact of this approach on encouraging and funding development.

1. Introduction – context for the debate

Key issues

London's growth reflects its success, but it also creates an urgent need to incentivise house building and the delivery of infrastructure. Fiscal devolution has opened the door for new ways of encouraging development and raising the capital required to support this growth.

The potential of a Land Value Tax (LVT), initially in a pilot scheme, should be examined as a way of accelerating the new house building London so desperately needs. This report examines the case for and against such an approach and analyses if it could work in London.

1.1 London is facing record population growth. Planners and developers are finding it hard to keep pace and provide adequate numbers of homes and the appropriate infrastructure. The blockages to releasing further land for housing are not new, but the need to develop policies and incentives to overcome them is increasingly urgent.

1.2 There has been action. To meet these challenges, the Mayor has identified areas of London with the potential for high growth[1] and has put in place mechanisms to speed up delivery.[2] A number of innovative funding mechanisms have been developed to enable crucial new infrastructure projects to go ahead.[3]

1.3 But we need to go further still. In order to deliver the infrastructure to support this growth, the Mayor, with support from the London Finance Commission,[4] has identified the need for tax raising powers to be devolved to London.[5] The Government agreed, stating that: "Under the right conditions, fiscal devolution has the potential to increase the financial accountability of local government and promote additional growth."[6]

1.4 The London Finance Commission concluded that the starting point for boosting development and delivering such autonomy should be property taxes (business rates, council tax, stamp duty land tax and the new annual tax on enveloped dwellings and capital gains property disposal tax). We have seen success with the Government agreeing to devolve 100 per cent of business rates to London. But the Commission also recommended that "further assessment should be undertaken of the potential benefits and costs of new taxes such as those on undeveloped land as part of the wider reforms of property taxation."[7]

1.5 This report explores one of these 'new taxes': a 'land value tax'. We assess its potential contribution to releasing housing sites and encouraging higher densities.

Property taxation – the need for reform

1.6 Many experts believe our public finances are reliant on a creaking and increasingly incoherent tax system:

> "Our process for making overall tax policy is, and has been for a very long time, broken. No strategy is laid out by government. No long-term direction is signalled. Parliamentary scrutiny is inadequate."[8]

1.7 There have been repeated attempts to come up with better systems. These include two Royal Commissions in 1920 and 1955 and, more recently, reports by two Nobel Prize winners for Economics on behalf of the Institute of Fiscal Studies in 1978 and 2011.

1.8 In the 2011 report, Sir James Mirrlees signalled that "a tax system that might have been ideal in the middle of the 20th century will not be ideal for the second decade of the 21st century."[9] He reserved particular criticism for the way property is taxed, especially business property. In the UK, business property is taxed through the national non-domestic rate (or business rates), which is levied on the estimated rental value of the property with certain classes of exemptions. These exemptions have led to inefficient distortions in the way land is used:

> "Another effect of business rates in practice arises from the treatment of unused or undeveloped land, on which business rates are levied at reduced or zero rates. This provides a clear and perverse incentive to use land inefficiently. Indeed, this has led to a rash of garish press headlines about property-owners demolishing property in order to avoid business rates. This puts the issue in rather stark perspective. If property is subject to tax and land is not, then, if the property is not being used, a tax incentive for demolition is created. If empty or unused property is taxed at a lower rate than property being used, then a tax disincentive to use it is created. A Land Value Tax avoids these problems."

1.9 In London, available developable land is in short supply. The demand for land for housing and supporting infrastructure is increasing and we have the perverse situation where some sites, that could be used for housing, are left vacant and the owners face few, if any, financial penalties. How much land this represents is hard to measure. However, some data suggests that there are more than 2,000 brownfield sites in London that may be available for development, whether vacant, derelict, or still in productive use. This represents around two per cent of London's land area.[10]

1.10 The remainder of this report assesses the potential of an LVT to incentivise landowners to bring forward such sites for much needed housing and social infrastructure in London. Potentially, by replacing both council tax and stamp duty, we could move to a system which is simpler, provides a fairer reflection of the value of land, and has the scope to make the property market function more effectively and promote growth.

How the investigation was carried out

1.11 On 17 September 2015, the Planning Committee and the GLA Oversight Committee appointed Tom Copley AM as a rapporteur to conduct an investigation into the case for and against a potential LVT for London.

1.12 In response to a call for evidence, a number of detailed expert written submissions were received, and the rapporteur conducted a series of meetings with experts in the period between October 2015 and January 2016. This provided the evidence base for this report.

1.13 A list of all submissions and meetings are set out in Appendix 1 of this report.

2. What is an LVT and how would it work?

Key issues

LVT has the potential to replace all other sources of taxation, but this report examines a less ambitious approach that would start off as an alternative to council tax and business rates. Although not widespread, there are examples of its use across the world where it is an established mechanism of funding regeneration and city growth.

To work, land ownership must be established, sites valued and optimum land use identified. None of these tasks in themselves present unsurmountable challenges — apart from the last one which is not currently a function of the UK planning system.

What is Land Value Taxation?

2.1 The idea of land value taxation has been around for more than 150 years, and advocates of this approach have come from all political parties.

2.2 Current property taxes make a charge on the type of use buildings are put to. Only businesses and residential property pay property tax (business rates and council tax respectively). Rural land is exempt, as are some categories of industrial, derelict and vacant land.

2.3 LVT is unlike any of the property taxes currently in use. It taxes land, and not buildings. LVT in its classic form is a tax on the annual 'rental value' of all land, ignoring buildings and other developments.

2.4 Why is land different from buildings? "Land (unlike goods and services) has no cost of production. If an ample supply of land of equal desirability were available everywhere, there would be nothing to pay for its use. In reality land acquires a scarcity value owing to the competing needs of the community for living, working and leisure space. Thus land value owes nothing to individual effort and everything to the community at large."[11] LVT is about capturing this value, as a fair reflection of a site's worth to the community. It could replace existing taxes such as council tax and business rates.

2.5 Fundamentally, LVT is not about the current use of land, but rather the potential use to which it could be put. It can vary according to the 'value' of each piece of land which in turn is driven both by the site's location and its designated land-use as determined by local planning policy. LVT can be levied on different sites at different rates according to the 'optimum use' that a public authority believes a site might best be used for.

2.6 Because LVT is a tax on the land, as opposed to the buildings on the land, its proponents believe it has a number of advantages over the current system of property taxation. Council tax and business rates are imposed on occupied and developed land which may have the effect of discouraging development. Stamp duty land tax is levied on most residential transactions which can have the effect of lowering mobility and reducing liquidity. These and other arguments in favour of an LVT are discussed later in this report.

How does it work?

2.7 In essence, LVT as a tax on land, is paid by the owner of the land with the level of tax depending on the value of the land in its 'optimum use' (as decided by a public authority) — as opposed to its actual or current use.

2.8 An LVT works in a similar way to the National Non-Domestic Business Rate system in operation today. The only difference being that all land is registered and assessed, and buildings and improvements on the site are ignored. A rate of tax is set and the owners of the land are billed, just as business occupiers are billed today.[12]

2.9 Three key tasks are required to form the basis of an LVT:

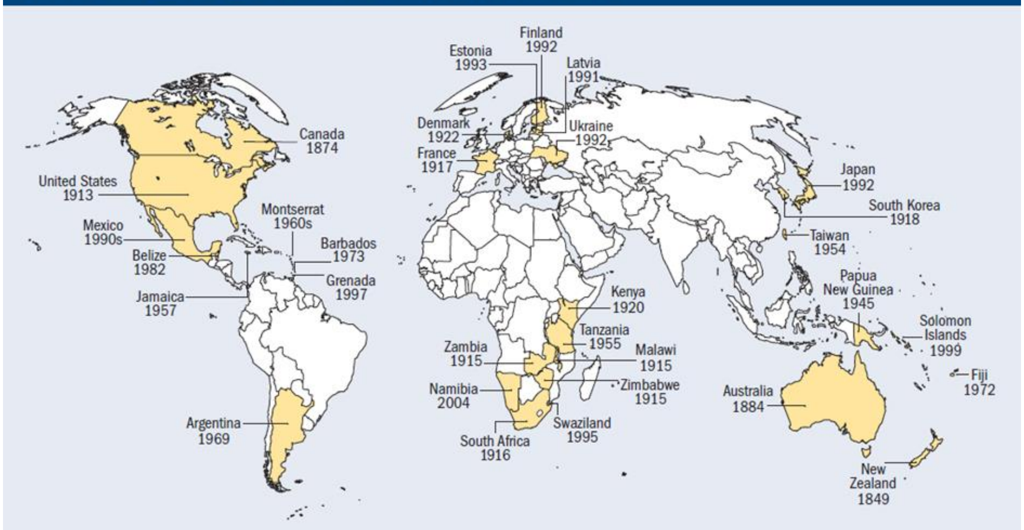
- Landownership must be established, as LVT is levied on land owners, not occupiers.
- Local authorities would survey land uses and identify the optimal use of each site in the area.
- Valuation of land is made on the basis of its current permitted use in most cases – but for some land, such as vacant or underused land, a local authority will apply a use-value such as residential, commercial or community function, based on the local development plan, as the most optimal use for the site.

2.10 Local authorities will clearly find it challenging to resource these changes and a valuation appeal system would need to be established to ensure a local authority's decision on optimal land use can be legally defended. These practical challenges represent much of the case against an LVT, and these are discussed later in this report.

Where is it in operation?

2.11 LVT is currently in operation in a number of countries including Denmark, Estonia and parts of Australia, New Zealand and the USA.

Countries with Land Value Taxation Experience by Year of Adoption



Source: Dye and England (2009), Land Value Taxation: Theory, Evidence and Practice, Cambridge, MA: Lincoln Institute of Land Policy

2.12 Some authorities in the UK have also been attracted to the idea of an LVT:

- Glasgow City Council has examined its potential and officers "considered the practical implications of LVT in principle and no insurmountable issues have yet been identified".[13]
- In 2005, the Vale of White Horse District Council published the Oxfordshire Land Value Tax Study and concluded an LVT was feasible.[14]
- In 2004, Liverpool City Council asked the government to trial Site Value Rating (a taxation system related to establishing an LVT).

The European experience[15]

Denmark: Since 1924 Denmark has levied a land value tax based on the market price of the land, revalued every two years. Land use tax is payable to the local authority and county at an effective tax rate of 0.6 to 2.4 per cent of the land's estimated market value.

Such a tax raises the cost of holding developable land when demand, as expressed through rising market prices, increases. This should make holding valuable land more expensive as development pressure increases, encouraging more land release for development.[16]

Estonia: Following independence in 1991, Estonia implemented a range of monetary and fiscal reforms and introduced a land tax in 1993. The land tax is based on the market value of land only – i.e. the value of improvements/buildings is excluded. Although it is a national tax, tax rates are determined annually by municipalities which receive 100 per cent of the revenue. Rates vary from between 0.5 and 2.0 per cent of the land value and while agricultural land is taxed at a lower rate, there are very few exemptions or other preferential rates.

Tax revenues from land continue to rise and increased by 171 per cent between 1994 and 1999. Much of this increase arose from revaluations, raising tax rates and improvements in collection efficiency. Reportedly, the imposition of land tax has "encouraged some property owners who stood to benefit by keeping their land idle… either to develop it or to sell it."[17]

Finland: Finland levies a range of land taxes. For land with buildings, the tax rate was levied at between 0.5 and 1.0 per cent of the land value. Exceptions exist, with lower tax rates for land with permanent housing and higher taxes for uses such as summer cottages.

"The most recent amendment [to the system] also contains a new section providing for a special 'penalty tax' on vacant lots in urban areas, raising their tax rate to 1.0 to 3.0 per cent, representing at the highest end a trebling of the normal tax. The purpose, of course, is to bring such lots into the market or spur their owners to develop them."[18]

Does it work?

2.13 Joshua Vincent is the Executive Director of the Centre for the Study of Economics in Philadelphia. He works with tax departments and local politicians advising how to restructure their property tax approaches to a land-based system. He has conducted over 50 land value impact studies for cities across the United States since 2000.

2.14 His written submission[19] to this review identifies a number of examples of communities as diverse as Pittsburgh, Vancouver, Copenhagen and Canberra that have all enacted LVT in one form or another. He concludes that, given the vital importance of a tax system for city development, and the general decline in public finances, LVT represents a viable solution:

> "Urban areas need to find tax systems that are fit for purpose, reliable, and do not distort crucial economic decisions by all sectors of the community…

Any town that wants to grow or maintain itself ought to look at that one revenue source under their feet that will never go away: land value."[20]

2.15 His evidence particularly highlights the case of Harrisburg as an example of LVT having a dramatic regeneration effect on a formerly depressed city.

Case study: The city of Harrisburg, Pennsylvania

Harrisburg, Pennsylvania is the seat of the State's government, but in the early 1980s was one of the nation's most distressed cities. It was still recovering from Hurricane Agnes (in 1972) that put buildings under four metres of water, and it had lost 800 businesses and a third of its population in 20 years.

In 1975 the city enacted LVT as a policy tool to stimulate development and to discourage land speculation. It reduced the tax on buildings to one-half of that on land and, over a period of time, increased the tax on land to six times that of property.

Mayor Stephen Reed credits LVT with the resulting regeneration. "In the period from 1982 to the end of 2009 [there was], $4.8 billion worth of investment, businesses increased in 1988 to 9,100, thousands of new jobs were created, over 40,000 building permits were issued."

"The tax base… went from $212 million to a total of $1.6 billion. The number of residential units sharply increased. In fact, the city of Harrisburg from its different housing programs and initiatives played a direct role in either building or helping others to build over 6,000 residential units."… "There is no city our size in America that had that much to do with that many residential units in that period of time. The crime rate came down 46 per cent, the fire rate dropped 78 per cent and the number of vacant structures fell by 80 per cent."[21]

Stephen Reed was nominated the US Mayor of the Year in 2006 and said: "As part of our economic development incentives, the land value tax policy is key, and without it a significant amount of new investment would not have occurred here during recent years."[22]

Joshua Vincent CEO
Centre for the Study of Economics
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3. Arguments for LVT

Key issues

The current taxation system has characteristics that, in some circumstances, encourage inefficient land use, deter development and make land banking more likely. Land Value Tax might overcome these drawbacks and deliver higher levels of development to fund London's growth. There are sites in London that are more appropriate for meeting our housing need that would be encouraged to come forward more quickly if they were taxed appropriately.

If implemented in London, LVT would reduce the city's reliance on Whitehall funding and give much greater flexibility in promoting and encouraging development as well as ensuring the community benefits when land values increase as a result of public investment.

3.1 Proponents of LVT have been making their case for more than 150 years.[23] It is not, therefore, surprising that an extensive literature has been presented to this review in support of their argument.

3.2 LVT, it is argued, will provide:

- A better and more efficient tax system for London.
- A stimulus for development and an obstacle to land banking.
- A tool for capturing value for the community.

A better and more efficient tax system for London

3.3 The London Finance Commission argued that Britain's property taxes are "inefficient, regressive and subject to ad hoc reform".[24] It concluded that introducing changes to property taxes would make the property market function more effectively and promote growth.

3.4 In 2011, the Mirrlees Review noted the 'perverse' incentives provided by the current system that can encourage demolition of buildings or continuing vacancy when reduced or zero business rates are applied to empty or derelict land. "If property is subject to tax and land is not, then, if the property is not being used, a tax incentive for demolition is created. If empty or unused property is taxed at a lower rate than property being used, then a tax disincentive to use it is created. An LVT avoids these problems."[25]

3.5 A tax on land is transparent and applies to an immovable asset. It is therefore difficult, if not impossible, to avoid or evade.[26] The current taxes on buildings (council tax and business rates) have the highest collection rate of all major UK taxes at 97 per cent and 98 per cent respectively and some believe an LVT would allow close to 100 per cent collection.[27]

3.6 Under the current regime, London is "hamstrung" in its ambition to invest in infrastructure and housing to enable future economic growth.[28] London relies heavily on funding from central government, with 74 per cent of its income received through grant, compared to 37 per cent in Madrid, 31 per cent in New York, 26 per cent per cent in Berlin, 18 per cent in Paris and only 8 per cent in Tokyo.[29]

3.7 With increased devolution, a locally implemented LVT, specifically designed for London, could be set and varied according to London's growth and infrastructure needs.

A stimulus for development and an obstacle to land banking

3.8 LVT is levied on land. As the Mirrlees Review identified, the existing tax system can encourage the under use, or non-use, of land since there are no financial penalties for doing so (given the reductions or exemptions on rates). If a site is valued at its current use (e.g. a car park), rather than its optimum use (e.g. housing), there are no incentives to bring it forward for more productive uses.

3.9 London faces an acute shortage of developable land and it is vital that incentives exist to bring such sites forward. A GLA report from 2012[30] suggested that almost half of the notionally available sites in London were held by those who had no incentive or intention to build. These sites could contribute significantly to London's housing need and the potential of such sites is set out below.[31]

3.10 LVT would impose costs on holding undeveloped or under-developed sites.[32] The Royal Institute of Chartered Surveyors (RICS) argues that LVT would stimulate economic activity as it provides an incentive to use land in a more productive way. This should discourage land hoarding, particularly of valuable, potentially high-utility, land, which may currently be 'taxed' at sub-optimal uses. Moreover, it would incentivise regeneration and redevelopment of existing underutilised structures and promote the development of new ones.[33]

3.11 Commentators point to examples where occupation rates of commercial premises increased after business rates exemptions were removed in 2008[34] and suggest that levying a full LVT on flats over shops, many of which are vacant or used for storage, would encourage owners to refurbish them and bring them into more productive use, probably for housing.[35]

3.12 Some argue that LVT would work to remove many of these barriers to housing delivery by encouraging the transfer of land from those "who have passively held it, anticipating uplift in value, to those who actively intend to put it to good use".[36]

3.13 Housing is, by and large, the most profitable use of land in London. And there is no doubt that London has a housing shortage. The GLA's Strategic Housing Land Availability Assessment (SHLAA)[37] underpins the London Plan housing targets. The SHLAA establishes housing capacity in London by identifying sites of 0.25 hectares or larger with planning permission for housing development; those allocated for housing; and by considering the likelihood of other sites not currently identified for housing use coming forward.

3.14 The SHLAA notes that "potential housing sites, often currently in a different use, play an important role in boroughs' housing land supply". The SHLAA "allows boroughs to take into account with confidence the theoretical potential of sites currently in different uses to contribute to future housing provision."

3.15 It is likely that many of these sites that are currently in different uses, but have been identified for potential residential use, might be encouraged to come forward for housing under an LVT if they were taxed as residential irrespective of the current use. Some commentators suggest these sites might currently accommodate superstores, retail warehouses and their accompanying car parks that might better be used for housing.[38]

3.16 The SHLAA identifies 1,973 hectares as potential housing land.[39] Assuming a standard 140 units per hectare (the current London average density of new delivery), these sites might accommodate another 276,000 new homes, and potentially much more. This would provide around another seven years housing supply in London's efforts to meet the housing challenge.

3.17 RICS concludes that LVT would "not affect the availability of land, which is a fixed supply, and should not create any disincentives to buy, develop or use land. In fact it would provide an incentive to make the most productive use of land."[40] Furthermore:

> "It should also stimulate economic activity as it provides an incentive to use in a productive way. This should discourage land hording, particularly valuable, potentially high utility land. Moreover, it could incentivise regeneration and redevelopment of existing underutilised structures and promote the development of new ones."

3.18 This is backed up from the experience of cities in the USA: "LVT plays a dual political and policy role in bringing land into use. If the proper zoning, planning permissions etc. are in place, LVT begs the question of why parcels of land or abandoned buildings sit unused dragging down the value of neighbouring properties and squeezing those who wish to pay a reasonable price for rent or purchase. In the policy sense, a land value tax can increase the annual holding cost of land to a point where the owner will sell. In the event they do not sell, at least they will be assuming a greater burden of tax. The shifting of tax can be measured, and the tax reduction [on property] has been a major selling point in our US LVT cities."[41]

A tool for capturing value for the community

3.19 A third case for LVT is the way value from public investment can be captured for the community. As far back as 1909, Winston Churchill argued that landowners should be taxed on the benefits they accrue from external developments, because these have been provided by the labour, investment and tax payments of others – often through public investment.[42] To an extent, the planning system already facilitates this through section 106 and Community Infrastructure Levy charges to developers.

3.20 Crossrail, however, illustrates the need to go further. Crossrail will cost £16 billion, the majority of it funded by the taxpayer. Recent reports suggest that the impact of this investment on property prices has been significant: "Property values around some Crossrail stations have surged since the east-west London line got the green light in 2008, with the fastest-rising jumping 82 per cent".[43] However, under the current system, little of this uplift in value will be returned to the taxpayer.

3.21 Proponents of LVT argue that by replacing council tax and business rates with LVT, not only would the public sector secure returns on its investment in infrastructure, the average tax payer would actually pay less. The tax base would be broader and owners of vacant or underused property would pay more than under the current system.[44]

4. Arguments against LVT

Key issues

Introducing an LVT would require a dramatic shift in the approach to raising taxes in this country. While some doubt the economic rationale for such a tax, others point to a number of practical challenges that might prove too administratively complex to implement as well as politically risky to introduce as the changes creates new “winners and losers”.

Those against the idea of LVT point to a range of alternative ways of raising funds and encouraging development – a number of these mechanisms are already available to the Mayor and in use in London today.

4.1 The arguments against LVT are that it is:

- Theoretically flawed, and would result in damaging unintended consequences.
- Presents a multitude of practical and potentially costly challenges.
- Ignores a readily available set of alternatives that would achieve the same result.

Theoretical flaws in the case for LVT

4.2 Those against LVT argue, “there is only one problem [with the LVT argument]: It is deeply flawed, both from an economic, a moral and a pragmatic perspective.”[45]

4.3 Detractors of LVT generally believe that decisions are best made in the context of market forces rather than administrative diktat. Landowners, they argue, perform a distinct, and valuable, economic function:

- Decisions on how and when to use land have to be made by someone who will bear the risk and economic consequences. Some of these decisions could involve leaving land unused until better opportunities to develop land arise. LVT would create a distortion in the market as landowners would be unable to make independent decisions about their property.
- In the UK, land-use decisions are made by landowners, within an agreed planning framework. “In effect this means that [currently] landowners … are restricted to what planners have allowed them to do. But when it then

comes to imposing an LVT on these landowners, on what value should this tax be based? On the current use value, on the use allowed by the plan, or on some fictional use regardless of what is currently permitted?"[46]

- Further, the level of tax paid will depend on the value of the land over which a landowner may have no control. Should a neighbour build a polluting factory, then the land value in adjoining sites would fall and so attract a lower tax. Conversely, should a tube station open nearby then land values would rise, alongside the payable LVT.[47]

Practical challenges of introducing LVT

4.4 The case against LVT was put by a number of contributors to the review, and many of them pointed to the practical difficulties of introducing a new form of taxation and the mechanisms needed to get it to work effectively.

4.5 The three key tasks needed to set up an LVT are: establishing ownership, establishing optimum use and valuing sites.

4.6 For London First, these tasks present significant challenges:[48]

- Identifying land owners in an environment like London, where there are multiple landownerships and complex lease arrangements, or where a landowner is unknown, will require a significant investment to fund the administrative system and staff to undertake full registration of ownership.
- Navigating the planning and evaluation process to establish an 'optimum' land use would be complex, and site visits to each parcel of land would be necessary. This approach is more akin to a 'zoning' approach that, while a common feature of many countries' planning systems, is alien to the British system. There would be a need for a significant consultation exercise to allow landowners to object to decisions on land use. And as this exercise is liable to generate a considerable number of costly appeals, an appropriate system would need to be established and funded permanently.
- Finally, establishing land values would be an equally complex process and would require further guidance as evidenced by other tax-based valuations.

4.7 Taking this last point — establishing a land value — further examination reveals the complexities involved. "Finding evidence on which to base land valuations is particularly difficult in an urban context because it requires the separation of unimproved land value of the value of improvements to the land."[49]

4.8 Since most transactions in London will generally relate to improved land, then this separation will have to be estimated artificially rather than on the basis of transaction evidence. Valuers use the residual method of valuation to do this and this method is widely criticised in terms of the inherent volatility of the inputs and the sensitively of the output to those inputs.[50]

4.9 The practical challenges may be dwarfed by the political challenge. LVT would require the valuation and regular revaluation of all land in London and the resulting valuations would increase or decrease tax bills accordingly. Council tax is still collected on valuations based on 1991 values in England and successive governments have postponed proposed revaluations partly because of the impact this would have in terms of moving property values up a number of bands.

4.10 In London, the impact of revaluation would be dramatic, and politically difficult to manage. Even though the tax raised might be fiscally neutral compared to the current system, the potential of LVT to produce significant winners and losers, is unknown.

Alternatives to LVT

4.11 One of the central drivers for this review was to understand how the homes and infrastructure needed to support London's growth might be funded during a financial squeeze on public investment. Many of the critics of LVT, as well as some commentators in general, point to a range of alternative funding mechanisms that might deliver the same policy objectives.

4.12 If the policy priority is to help bring land forward for housing development, some suggest alternatives such as a derelict land tax, grants and other incentives to release such land, and changes to business rates relief on empty sites. They suggest it might be useful to consider these alternatives alongside consideration of an LVT in order to identify the most effective way of meeting the land supply objective.[51]

4.13 London First points to the large brownfield sites in public ownership that are underutilised and ripe for development. The organisation suggests that unblocking the constraints on delivery of these sites would be an easier 'win' and deliver new homes much earlier than establishing an LVT.[52]

4.14 For land in private ownership, some argue an "incentive and intervention approach would be more successful".[53] Alternatives that might be considered include:

- Tax breaks or reliefs linked to the delivery of development within specific timeframes.
- Further use of the Tax Increment Financing model.

- Greater use of simplified planning in specified areas – e.g. those proposed in housing zones.[54]
- Enabling better use of the Compulsory Purchase process where strategically important sites are not being developed.

Existing Mayoral powers

4.15 The Mayor already holds a number of powers to encourage regeneration by co-ordinating his planning and fiscal responsibilities.

4.16 The 2011 Localism Act provided the Mayor with powers to set up Mayoral Development Corporations and there are two in London: the Olympic Park (London Legacy Development Corporation - LLDC) and Old Oak Common and Park Royal (OPDC). Development Corporations become the local planning authority for that site, and as such are responsible for preparing and maintaining a Development Plan that is the basis for making decisions on planning applications in the area and setting the Community Infrastructure Levy.

4.17 The Royal Docks and Nine Elms are London's Enterprise Zones. In these zones, all business rates growth is kept by the local authorities in the area and the local enterprise partnership (London's is Chaired by the Mayor) for 25 years to reinvest in local economic growth. The zones also allow simplified planning that grants automatic planning permission for certain development (such as new industrial buildings or changing how existing buildings are used) within specified areas to stimulate growth and development.

4.18 The Northern Line Extension to Battersea has been funded by an innovative Tax Increment Financing deal. The Mayor signed a deal to allow the GLA to take out a loan of up to £1 billion to fund the project, with a repayment guarantee provided by the UK government. Loan repayments are due to be paid back, in part, through future growth in business rates revenue within the Nine Elms Enterprise Zone. The Community Infrastructure Levy and section 106 revenues will also be used to pay back the loan.[55]

4.19 The Government intends to allow local authorities to retain 100 per cent of business rates by 2020. The Mayor will soon have further power over business rates devolved to him as directly elected mayors will be able to add a premium to business rates to pay for new infrastructure. This power will be limited by a cap, likely to be set at 2p on the rate.[56]

5. Can an LVT be introduced in London?

Key issues

Assuming the case for an LVT can be made, a further question is whether it can be applied only in London. The Mayor already has a number of powers and responsibilities that enable him to focus considerable resources on stimulating development, but as Land Value Tax is untried in the UK, the statutory powers required to move to this system are unclear.

Further devolution of power would probably be required and we suggest that the new Mayor looks at the issue to identify what further powers they might need to make an LVT a reality.

5.1 The previous sections of this report have largely examined the theoretical argument for and against an LVT. This section reviews the practicalities: how it could be introduced in London, what powers the Mayor would need, and whether further devolution of powers is required.

A pilot LVT in London?

5.2 The Mayor has asked for, and been granted, a number of additional powers since the GLA was established. These powers have been granted not just through amendments to the GLA Act 1999, but also through a series of Statutory Instruments (for example the Mayor of London Order 2008).

5.3 As a result of these additional powers, the Mayor is able to set up Mayoral Development Corporations (MDC) with significant regeneration powers. He controls significant housing budgets, can raise infrastructure levies to fund schemes such as Crossrail and has the ability to use his property portfolio to enter into development partnerships to kick-start regeneration programmes.

5.4 In April 2015, the Mayor established the Old Oak and Park Royal Development Corporation (OPDC) to support his vision for the area[57] and to promote and deliver the regeneration of this part of London. He has assumed various statutory powers relating to infrastructure, regeneration, land acquisitions and plan making and can now ensure a clear and integrated approach to planning across the entire area.

5.5 The Mayor’s ‘Vision for the future’ is for Old Oak making a major contribution to London’s position as a world business centre. “Potentially the largest contributor of any of London's Opportunity Areas towards employment provision and the third-largest contributor of any Opportunity Area towards London's homes target."

5.6 Research undertaken for the Mayor indicates that the Gross Value Added of this project could be between £3.5 billion and £6.2 billion for the London economy, with the potential for the OPDC to supply between 1.25 per cent and 2.5 per cent of London's housing requirement, and between 9.5 per cent and 13.8 per cent of London's employment needs up to 2031.

5.7 As well as the potential to deliver 24,000 new homes and 55,000 new jobs, the Mayor's vision included a network of new open spaces and green links, supporting the major redevelopment of the area.

5.8 Notwithstanding these powers, the Mayor does not own all of the land in the OPDC. The Mayor, however, is in the fortunate position of being the 'planning authority' for the OPDC.

5.9 These powers could, theoretically, enable the Mayor to implement an LVT. And, in terms of the practicalities of introducing the system, the evidence from an exercise conducted for the study of land value taxation in Oxfordshire[58] seems to suggest the Mayor might very well be able to overcome the challenges of implementing an LVT.

5.10 London needs to maximise sites available for housing and infrastructure and any mechanism that encourages land to come forward for development is needed. A Land Value Tax might be a major step towards incentivising land owners to develop their land in alignment with his strategic vision to deliver his ambitious targets.

Does the Mayor have the power?

5.11 LVT would represent a new form of taxation in the UK. If LVT were to be introduced in London it would require the devolution of further powers to the Mayor – the type and range of powers would depend on the extent and composition of any LVT. Supporters of LVT suggest that the tax could, in theory, replace all other taxes, including income tax. This would clearly represent a significant level of devolution beyond the scope of any discussion happening now, or likely to take place in the near future.

5.12 But could a more limited version of LVT, one that simply replaced council tax and business rates, be introduced in London without significant legislative change?

5.13 Some contributors to this review are adamant that the required legislation is already in place and only minor changes might be needed to permit a Mayor to introduce an LVT. They point to the fact that council tax is raised locally already, and from 2020 councils will be allowed to retain 100 per cent of business rates and vary those rates.[59] Some suggest that the Mayor could gain the power needed for a more limited version of LVT through Statutory Instruments.[60]

5.14 For others, however, the required level of devolution needed is unlikely to be granted given London's enormous contribution to HM Treasury[61] – despite many arguing that further devolution would be tax neutral.[62]

5.15 London First considers that primary legislation would be required and would prove highly contentious within both HM Treasury and the Government, and therefore unlikely to happen.[63]

5.16 Nevertheless, the appetite for further devolution is very much in evidence, and the London Finance Commission's proposals and recommendations are attracting support in Government (as set out in the introduction to this report).

6. Conclusions and recommendations

Key issues

The need for new mechanisms to fund London's growth is clear, and the current appetite for devolution, especially to directly elected Mayors, is encouraging innovation in funding and delivery. We need to understand if the Mayor has sufficient powers to implement a Land Value Tax and, if not, what more needs to be devolved.

A Land Value Tax pilot could more rapidly bring forward housing development in sites where the Mayor has planning powers.

6.1 This London Assembly review was set up to examine the case for and against introducing an LVT in London.

6.2 London is moving into unchartered territory, in terms of its growth and need for housing and infrastructure. We need to explore all possible ways of incentivising the optimum use of London's space and, for many, it is clear that the current system of property taxation does not deliver this outcome. LVT appears to offer an opportunity to secure the land and fund the level of growth required.

6.3 This review heard that:

> "The general theoretical case for an LVT has been made by leading economists. The case for retrospective implementation of LVT in a developed and largely urbanised context, however, is not so clear, particularly in a political economy that has been and continues to be shaped by a land-owning aristocracy and a property-owned democracy."[64]

6.4 The time has come to test it out. The conditions are right:

- In London, we have the challenge of accommodating unprecedented levels of growth.
- We have the challenge of finding the funding to support this growth sustainably.
- We have the office of the Mayor of London that has demonstrated it has the strategic leadership needed to take bold steps to support a growing world city.
- We have the organisational know-how to deliver these strategic projects.

- We also have the growing confidence of the Government that London can be trusted with new and devolved powers.

Recommendation 1

By the end of 2016, the new Mayor should have examined the powers that would be necessary to implement and operate an LVT to replace the three basic property taxes: council tax, business rates and stamp duty land tax.

Recommendation 2

Within the first year of office, the new Mayor of London should commission an economic feasibility study that would model the implementation, operation and likely yield of an LVT in a geographically defined area of London - for example in the OPDC.

The study would compare the likely yields of an LVT compared with the existing property taxes and estimate the impact of an LVT on different land uses within the area.

Recommendation 3

Should the economic feasibility study show an LVT would deliver positive benefits in terms of encouraging housing development and funding supporting infrastructure, the Mayor should trial an LVT in a geographically limited area of London - for example the OPDC - for a fixed period of time, to test the impact of this approach on encouraging and funding development.

Appendix 1 – The evidence base

Written submissions were received from:

	Evidence reference
John Cormack	LVT11
Glasgow City Council	LVT02
Dr Oliver Hartwich	LVT09
Land Value Taxation Campaign	LVT10
London First	LVT08
Royal Institution of Chartered Surveyors	LVT07
Royal Town Planning Institute	LVT06
School of Economic Science	LVT01
John Stuart	LVT05
Joshua Vincent, Centre for the Study of Economics	LVT04
Professor Pete Wyatt	LVT03

Meetings and interviews with experts:

London First - 15 September and 1 December 2015

GLA London Plan Team - 26 October 2015

Coalition for Economic Justice - 30 October 2015

GLA Senior Manager - Growth and Enterprise - 5 January 2016

Endnotes

[1] These include 38 Opportunity Areas and seven Intensification Areas

[2] For example the two Mayoral Development Corporations, the Royal Docks Enterprise Zone and 20 Housing Zones

[3] Crossrail is being partly funded by an infrastructure levy and the Northern Line extension is being paid for through Tax Incremental Financing

[4] "Raising the Capital", London Finance Commission, May 2013

[5] London relies heavily on central government for 74% per cent of its income.

[6] George Osbourne, Chancellor of the Exchequer. Quoted in House of Lords debate, 3 July 2013

[7] Recommendation 21, "Raising the Capital", London Finance Commission, May 2013

[8] Institute for Fiscal Studies, July 2015 http://www.ifs.org.uk/publications/7831

[9] Ibid, page 2

[10] The National Land Use Database records all previously developed land and buildings in England that may be available for development, whether vacant, derelict, or still in productive use. In 2012, the Database recorded over 2,000 Brownfield sites across London, equivalent to more than two per cent of the land in London. http://data.london.gov.uk/dataset/london-brownfield-sites-review

[11] Land Value Taxation Campaign http://www.landvaluetax.org/what-is-lvt/

[12] Land Value Tax – A Viable Tax Alternative?, Henry Law, Land Value Tax Campaign, March 2015

[13] Glasgow City Council, written submission LVT02,

[14] http://www.andywightman.com/docs/oxfordshire_study.pdf

[15] Land-Value Taxation Around the World , R Andelson , American Journal of Economics and Sociology, 2000

[16] Barker Review of Housing Supply, Interim Report Analysis, 2003

[17] Land-Value Taxation Around the World , R Andelson , 2000, page 208

[18] Land-Value Taxation Around the World , R Andelson , 2000, page 217

[19] Joshua Vincent, Centre for the Study of Economics, written submission LVT04

[20] Ibid

[21] Land Value Taxation – The Harrisburg Experience http://commongroundorwa.org/index.php/component/k2/item/373-land-value-taxation-%E2%80%93-the-harrisburg-experience/373-land-value-taxation-%E2%80%93-the-harrisburg-experience

[22] Joshua Vincent, Centre for the Study of Economics, written submission LVT04

[23] David Ricardo developed the theoretical foundation for LVT and Henry George popularised the concept in his 1879 book "Progress and Poverty", Dr Oliver Hartwich, written submission LVT09

[24] Raising the Capital, Report of the London Finance Commission, page 62

[25] Mirrlees Review, The Taxation of Land and Property. Chapter 16 p. 376

[26] RICS written submission LVT07

[27] Mark Wadsworth, Land Value Taxation Campaign written submission LVT10

[28] Richard Blyth, Head of Policy, Royal Town Planning Institute, written submission LVT06

[29] London Finance Commission

[30] Barriers to Housing Delivery in London, Molior for the GLA, 2012

[31] See references to the 1,973 hectares of potential housing sites identified in the Strategic Housing Land Availability Assessment

[32] John Cormack, written submission LVT11

[33] RICS written submission LVT07

[34] Meeting with Coalition for Economic Justice, 30 October 2015

[35] Mark Wadsworth, Land Value Taxation Campaign written submission LVT10

[36] School of Economic Science, written submission LVT01

[37] The London Strategic Housing Land Availability Assessment, Mayor of London, 2013

[38] Richard Blyth, Head of Policy, Royal Town Planning Institute, written submission LVT06

[39] Meeting with the London Plan Team, 26 October 2015

[40] RICS written submission LVT07

[41] Joshua Vincent, Centre for the Study of Economics, written submission LVT04

[42] http://www.landvaluetax.org/current-affairs-comment/winston-churchill-said-it-all-better-then-we-can.html

[43] http://www.theguardian.com/uk-news/2015/mar/18/house-prices-surge-near-crossrail-stations-by-up-to-82

[44] Meeting with Coalition for Economic Justice, 30 October 2015

[45] Dr Oliver Mark Hartwich, written submission LVT09 and references

[46] Ibid

[47] Ibid

[48] London First, written submission LVT08

[49] Professor Pete Wyatt, written submission LVT03

[50] Ibid

[51] Professor Pete Wyatt, written submission LVT03

[52] London First, written submission LVT08

[53] Ibid

[54] A 'Housing Zone' is an area of land where the government provides funding to unlock the scheme – such as infrastructure, site acquisition and leaseholder buyouts.

[55] http://www.placemakingresource.com/article/1325425/case-study-using-tax-increment-financing-fund-northern-line-extension

[56] https://www.gov.uk/government/news/chancellor-unveils-devolution-revolution

[57] Vision for Old Oak Consultation, June 2013 http://www.london.gov.uk/sites/default/files/Old_Oak_Part_1.pdf

[58] A report on aspects of the study of Land Value Taxation in Oxfordshire, Anthony Vickers, Lincoln Institute of Land Policy Working Paper, 2006

[59] Mark Wadsworth, Land Value Taxation Campaign written submission LVT10. Meeting Coalition for Economic Justice, 30 October 2015

[60] Property taxes are levied under the provisions of the Local Government Finance Act, 1988, which has been subsequently amended and supplemented by several hundred statutory instruments. “Land Value Taxation in Britain”, Connellan et al, Lincoln Institute of Land Policy, 2004

[61] http://www.theguardian.com/politics/2012/nov/08/land-value-tax

[62] Raising the Capital, Report of the London Finance Commission, page 9

[63] London First, written submission LVT08

[64] Professor Pete Wyatt, written submission LVT03

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Hindi

यदि आपको इस दस्तावेज का सारांश अपनी भाषा में
चाहिए तो उपर दिये हुए नंबर पर फोन करें या उपर दिये
गये डाक पते या ई मेल पते पर हम से संपर्क करें।

Vietnamese

Nếu ông (bà) muốn nội dung văn bản này được dịch sang
tiếng Việt, xin vui lòng liên hệ với chúng tôi bằng điện
thoại, thư hoặc thư điện tử theo địa chỉ ở trên.

Bengali

আপনি যদি এই দলিলের একটা সারাংশ নিজের ভাষায় পেতে চান,
তাহলে দয়া করে ফো করবেন অথবা উল্লেখিত ডাক ঠিকানায় বা
ই-মেইল ঠিকানায় আমাদের সাথে যোগাযোগ করবেন।

Greek

*Εάν επιθυμείτε περίληψη αυτού του κειμένου στην γλώσσα
σας, παρακαλώ καλέστε τον αριθμό ή επικοινωνήστε μαζί
μας στην ανωτέρω ταχυδρομική ή την ηλεκτρονική διεύθυνση.*

Urdu

اگر آپ کو اس دستاویز کا خلاصہ اپنی زبان میں
درکار ہو تو، براہ کرم نمبر پر فون کریں
یا مذکورہ بالا ڈاک کے پتے یا ای میل
پتے پر ہم سے رابطہ کریں۔

Turkish

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numarasını arayın, veya posta ya da e-posta
adresi aracılığıyla bizimle temasa geçin.

Arabic

الحصول على ملخص لهذا المستند بلغتك،
فرجاء الاتصال برقم الهاتف أو الاتصال على
العنوان البريدي العادي أو عنوان البريد
الإلكتروني أعلاه.

Punjabi

ਜੇ ਤੁਸੀਂ ਇਸ ਦਸਤਾਵੇਜ਼ ਦਾ ਸੰਖੇਪ ਆਪਣੀ ਭਾਸ਼ਾ ਵਿਚ ਲੈਣਾ
ਚਾਹੋ, ਤਾਂ ਕਿਰਪਾ ਕਰਕੇ ਇਸ ਨੰਬਰ 'ਤੇ ਫ਼ੋਨ ਕਰੋ ਜਾਂ
ਉਪਰ ਦਿੱਤੇ ਡਾਕ ਜਾਂ ਈਮੇਲ ਪਤੇ 'ਤੇ ਸਾਨੂੰ ਸੰਪਰਕ ਕਰੋ।

Gujarati

જો તમારે આ દસ્તાવેજનો સાર તમારી ભાષામાં
જોઈતો હોય તો ઉપર આપેલ નંબર પર ફોન કરો
અથવા ઉપર આપેલ ટપાલ અથવા ઈ-મેઈલ સરનામા
પર અમારો સંપર્ક કરો.

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