London Assembly Planning Committee

Land Value Tax investigation
Submission binder

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Land Value Tax – Implications from the London Strategic Housing Land Availability Assessment

Meeting with the London Plan Team (John Lett and Jennifer Peters), Monday 26 October 2015

Present:

- Tom Copley, AM
- Nicky Gavron, AM
- John Lett, Strategic Planning Manager, GLA
- Jennifer Peters, Strategic Planning Manager, GLA
- Paul Watling, Scrutiny Manager
- Alex Csicsek, Research and Support Officer
- Alex Sewell, Research and Support Officer

Introduction and key issues for discussion

Tom Copley introduced the LVT rapporteur review and explained that one of the central arguments for a LVT would be the effect it would have on bringing forward land for housing development. Land that had been identified with an 'optimal use' as housing would be taxed at a certain rate (likely to be significantly higher than vacant or other sub-optimal uses) irrespective of its existing use. This annually levied tax would encourage land owners to develop land for housing.

One aspect of the review was to try to understand how much land in London is currently not being used for housing but could potentially come forward for such a use if a LVT was implemented. The London Strategic Housing Land Availability Assessment might provide an indication of how much potential housing land exists in London.

What is the London Strategic Housing Land Availability Assessment?

The London Strategic Housing Land Availability Assessment (SHLAA) identifies London's housing capacity and is an essential component of the evidence base required for the London Plan.

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. In addition account is also taken of the potential housing capacity from smaller sites, non-self-contained units and vacant dwellings returning to use.

More specifically the SHLAA uses six key sources of housing capacity:

1. Sites 0.25 ha or larger with planning approval for housing (**approvals**)
2. Sites 0.25 ha or larger publicly identified in development plans as sites with housing capacity (**allocations**)

3. Other sites 0.25 ha or larger, not in the public domain, which have potential to contribute to strategic and local housing targets (**potentials**). Individual estimates of the probability of these coming forward for housing are derived from information on site constraints and discussion with boroughs. Unsuitable sites, such as those with strategic industrial use, or those in the Green Belt, are allocated a zero probability of coming forward for housing development unless the borough indicates otherwise.
4. Assumptions on the capacity of sites of less than 0.25 ha (small sites), including new build, conversions and change of use – based on past trends
5. Capacity from non-self-contained accommodation (based on the future pipeline).
6. Vacant dwellings returning to active housing use.

Potential housing sites

Figures provided from the SHLAA in advance of the meeting (that exclude those in the low probability category (see SHLAA report for definitions) suggest some 5,469 hectares have been identified as having housing capacity.

SHLAA identified housing capacity 2013-2036 (hectares)		
Source	Gross	Net
Allocations and Approvals	3495	2783
Potential development	1973	1445
Total	5469	4228

The gross figure is the whole site as identified in the SHLAA, the net figure is the proportion of the site identified for residential use (as many sites were identified as being mixed use), the SHLAA housing numbers are based on the net site area (assuming that the other part of the sites wouldn't come forward for housing).

The gross site area is probably more relevant when considering Land Value Tax whereas the net site area is a better indication of potential housing units. Assuming a standard 140 units per hectare (the current London average density of new delivery) and a 4228 ha net site area, then there are 591,920 units that might be accommodated on the identified sites. This might be higher or lower depending on the location and accessibility of the site and the residential density matrix that applies.

Identifying optimum land uses and taxation levels

Implementing a LVT would require a local authority to identify an optimum use for every site. In the absence of a zoning system in British planning this might be a major task and complicated by any appeals process that would be needed to be established.

However, a variation of the approach could be applied, which would apply the tax to sites with housing approvals and those allocated for housing. These sites have already been identified as suitable for housing (either as an application or through a site specific allocation). London has a significant number of such sites which are not coming forward for development. There are a multitude of reasons of why this is the case, but a LVT could be the incentive/stick needed to kick start development.

It was noted that the level of taxation would have to be significantly high enough to make it likely that there is a strong economic case for releasing land for development rather than banking it or leaving it in a sub-optimal use.

Alternative approaches

A number of other suggestions were made as mechanisms that might also bring suitable sites for housing through a variety of planning and financial measures. These include:

- Removal of discounted rates for empty buildings and vacant sites
- Use of other "use it or lose it" measures if permissioned land is not developed quickly
- Addressing the issue of "inactive" builders and measures to increase the amount of new housing on individual sites which can be absorbed by local markets
- Work by the Outer London Commission suggests that new entrants to the house building sector are required to boost housing supply (i.e. the Private Rented Sector) in addition to conventional market, RP and council housing.
- Address constraints on the capacity of the development sector

PW, 27 October 2015

Note on calculating new housing capacity on "potential" sites identified in the SHLAA.

The Mayor's focus is on ensuring the "approvals" and "allocated" sites are prioritised for development.

However, LVT might have a role in bringing forward those identified as "potentials". For LVT purposes the tax would apply to the gross site. Assuming 1,973 hectares of "potentials" and an average (illustrative) density of 140 units per hectare, LVT might contribute to bringing forward sites with the capacity for 276,220 new homes in addition to the 389,620 identified in the SHLAA through net area approvals and allocations.

LVT could theoretically deliver sites for an additional 70 per cent new homes.

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What are the cases for and against introducing a land value tax in London?

There are many arguments both for and against Land Value Taxation and these have been well rehearsed. In response to the request of Tom Copely AM, to support a balanced assessment of the potential benefits, a few of the more relevant points are presented here.

Economic Faculty, School of Economic Science

11 Mandeville Place, London, W1U 3AJ

Land Value Tax is different from nearly all other forms of taxation in that it aims to target economic rent rather than economic enterprise.

Economists since Adam Smith have told us that taxing economic rent, particularly with respect to land value, has the least distortionary effect, encourages enterprise and inhibits indolence. Private acquisition of economic rent is the main factor in the ever-increasing wealth disparity as explained by Thomas Piketty and others recently; taxation based on economic rent will help reverse this tendency.

Economic rent (of land) expresses the advantage that one location has over another, irrespective of any development of the site; it is reflected in the market capital value or rent of the undeveloped site. Obvious to everyone is that London is a very attractive place to ~~be~~ live and work, and hence the economic rent is very high indeed.

Hence we argue that having LVT amongst the methods of taxation provides powers to influence economic activity for the better that are not currently available.

Land Value Tax is the most localised form of taxation as it is based on the values of different locations.

The benefits of some public investments are by nature localised; Jubilee Line extension and Crossrail are two obvious examples in London. If costs are met through general taxation, those in distant locations are paying for benefits they do not receive. Hence for at least some public investments it is fairer for the beneficiaries to pay and this would be effected by a land value tax.

An excellent example of how increases in land value can be used to fund infrastructure can be found in the recently published book "No Debt, High Growth, Low Tax", Andrew Purves.

This method has to a small extent been recognised by the CrossRail Business Rate Supplement (BRS) and less so with Community Infrastructure Levy (CIL). These cover the whole of London, so are anything but site-specific; nevertheless, they are a property-based charge aimed at extracting at least a small amount of the economic rent of a highly advantaged area to pay for the benefit bestowed on it by the investment.

Hence we argue that LVT is a very effective form of revenue for local infrastructure project funding.

Land Value Tax is the most challenging form of taxation to introduce as it targets the source of the high (excessive) profits related to rent-seeking "enterprise".

We argue that the dominance of financial activity over normal provision of goods and services is in large part due to its ability to seek super-normal profits based on rental income and capital gain, and much of this is ultimately based on property. It is likely that significant opposition to LVT will be raised by such so-called industry.

Land Value Tax requires a new rating assessment infrastructure; this is unnecessary and expensive.

As the means to assess land value are not within the present rating and taxation infrastructure, changes will be necessary. It can be argued that land value assessment as distinct to property value is both complex and arbitrary, leading to significant challenges to assessments; all of this will take many years and will be extremely expensive.

We argue that land value assessment is common practice by developers, can be implemented through relatively simple changes to the present rating systems, and a reasonable example of how it can be made to work and has done for decades is to be found not far away in Denmark.

Land Value Tax will harm London's standing as the place to invest for foreign nationals and institutions.

Attractions for international investment in London property include: a place of stability in a world of increasing unrest; strong and relatively corruption-free legal system; reasonable prospect of currency stability; strong potential for capital gain; prospect of high rental income. Of these, the prospects of capital gains and rental income are greatly encouraged by the other points; however, it can be argued that the introduction of LVT will reduce both capital gains and rental income, and hence reduce such international investment.

We argue that such so-called investment does little to the real economy of London since what it actually consists of is simply transfer of ownership; if anything it has helped push up property (land) prices with an adverse effect on ordinary people of the capital. LVT will not prevent international investors taking advantage of the UK and London's stability but will ensure that more of any advantage is channelled to London's community.

Land Value tax is inherently unfair to asset-rich, income-poor.

This can be exemplified by a widowed pensioner in a large property that has been the family home for a lifetime; it could be deemed unfair to destroy this through imposing LVT.

This particular objection has been addressed through proposals for deferment until the point of property sale; however, it is raised here as such an issue can easily become a tabloid headline which could significantly affect all reasonable arguments for LVT introduction. The levy that an existing mortgage holder would be required to pay is another potential issue that would need careful consideration to produce a fair outcome.

We argue that this and similar objections have solutions; it is a vital aspect of arguing for LVT that they are clearly explained to avoid the potential of tabloid scares and if the many advantages and possibilities of providing a means of tackling the chronic problems that London faces and particularly the housing crisis perhaps could even receive tabloid support.

Land Value Tax will not do anything that could not be achieved with relatively minor modifications to existing Council Tax and Uniform Business Rate schemes.

It can be argued that it is much easier to adjust existing taxation schemes than to introduce something that is new and untested. Why not simply alter UBR and extend the number of council tax bands?

We have already argued that LVT is a different form of taxation. We further argue that LVT has underlying simplicity, significant advantage for efficient land use and enterprise, and a means to a wider share in the resulting prosperity.

How should a land value tax be designed to work optimally in London? eg should it be a targeted tax or apply to all land? how should land values be assessed?

In brief, we argue that LVT could be introduced as a replacement for both UBR and Council Tax for the whole of the GLA area. If politically possible, this would have the most benefit for the people and prosperity of London. LVT needs to be based on the economic potential of each site within existing zone permissions. LVT needs to be charged on the owners of each property, rather than the tenants.

London's public authorities still own a significant portion of London land. Dag Detter and Stefan Folster's "The Public Wealth of Nations" argues that much of public-held assets (such as land) could be of greater benefit to the community if better managed. We argue that sensible design of the LVT system would encourage this. One of the important outcomes of debating the usefulness of LVT is that it brings to the fore the significance of land in cities

Although the invitation to respond has been with respect to Land Value Taxation, we argue that there may be other approaches to bring more economic rent into the public purse. For example, when considering development projects, particularly of affordable housing, we would encourage local authorities to consider very carefully whether the best option is to sell off land compared with other options such as leasing which could provide long term incomes streams. Hence the reference to the "No Debt, High Growth, Low Tax" of Hong Kong where the situation is not one where LVT is levied but the land remains in ownership of the government and considerable income is gained from leasing.

What effect would a land value tax have on bringing forward land for development and on preventing land banking?

As long as LVT is based on the economic potential of each location rather than existing use, its implementation will undoubtedly act as a significant encouragement to efficient land use and an inhibitor to land banking.

It can be argued that there will be effects on the wider economy such and there may be negative effects on the returns of the investments of pension funds etc. However, we argue that the increase in overall prosperity will be more than adequate compensation and with adequate lead in time investors will have the opportunity to re-balance their portfolios. We see that move as encouraging genuine economic activity compared with speculative investment and anticipate that as the shares of the real estate investors decline those of the construction firms will increase.

The GLA's "Barriers to Housing Delivery" report of Dec 2012, indicated that almost half of the notionally available sites in London at that time were held by those who had no incentive or intention to build; CIL had also tended to inhibit builders acquiring land from them. We argue that LVT would work to remove many of the barriers to housing delivery by encouraging the transfer of land from those who have passively held it anticipating an uplift in value to those who actively intend to put it to good use.

Summary

We argue for the gradual but widespread introduction of LVT to London to revitalise the healthier aspects of the city's economy. As benefits are demonstrated, it is hoped that the example can spread through all regions of the UK and to the wider world. The great metropolis of London can be an example to the world of how to prosper in the 21st century and beyond.

Peter Bowman
Head of Economics
School of Economic Science
September 2015

Item 6
25th June 2009

Glasgow City Council

Report by Bailie Jean McFadden, Executive Member for Corporate Governance

Contact: [redacted]

Local Taxation Working Group: overall findings

Purpose of report:

To summarise the overall findings of the Local Taxation Working Group ('the working group'). This overview report draws on the findings of the reports previously considered by the working group on individual local taxation models and has been prepared using the scope, approach and assessment criteria previously agreed by the working group.

Recommendations:

It is recommended that Council notes the content of the report and makes representation to the Scottish Government on the recommendations at paragraph 1.4 in the report.

Ward No(s):		Citywide:	x
Local member(s) advised:	Yes [ ] No [ ]	Consulted:	Yes [ ] No [ ]

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1. Executive summary

1.1 On 26 June 2008, the Council approved the creation of a working group to consider issues with the existing arrangements for local taxation and investigate possible alternatives from the City of Glasgow's perspective. The local taxation working group has since met five times to consider various options for reform. This report provides a summary of the working group's findings.

1.2 The working group has confirmed that a number of significant concerns exist with current local taxation arrangements and that the *status quo* is therefore not an option.

1.3 There is ongoing debate around the Scottish Government's fiscal powers. The working group feels that this debate should be extended to local government. The first decision that would have to be taken at national and devolved level is whether to replace local government with local administration, or to give greater fiscal powers to locally elected authorities. The working group believes that the public desire a democratically accountable local authority and therefore local fiscal reform is required.

1.4 The working group identified four overarching criteria with which to assess models for local taxation: fairness, efficiency, predictability and local democratic accountability. Using these criteria, the working group has identified a number of recommendations for reform. It is recommended that the Council makes representation to the Scottish Parliament on these as summarised in the table below.

Recommendation	Comment
Immediate reform of council tax	• Undertake a revaluation of domestic properties.[1] • Increase council tax benefit take-up. • Consider other reforms to increase fairness and ability to pay.
Long term move to LPT / LVT hybrid tax	• Start planning for replacement of council tax with a local property tax, incorporating powers to introduce gradually land value tax elements.
Water charging	• Reduce water charge burden on low income households through access to greater rebates / benefits. • Address administration and collection issues that significantly impact local authorities. • Revise statutory orders to enable up to date rateable values to be used for all non-domestic property water charges. • Consider longer term replacement of direct water charging for domestic properties.
Expand local government fiscal powers	• Address gearing issue by reducing dependence on central government funding. • Broaden local tax base through local charging schemes, such as tourist taxes and charges linked with the environment agenda.

[1] The cost and upheaval arising from council tax revaluation may not be appropriate depending on the timescale of any move to a LPT / LVT model.

2. Background

2.1 On 26 June 2008, the Council approved the creation of a working group to consider issues with the existing arrangements for local taxation and investigate possible alternatives. This decision was taken following approval of the Council's response to the Scottish Governments consultation on local income tax proposals.

2.2 The working group approved the scope of the review of local taxation models to be undertaken on 21 August 2008, including the approach to the review, an agreed set of evaluation criteria and an outline timetable and agenda. A copy of the agreed approach and evaluation criteria is provided in appendix 1 and the working group's membership is listed at appendix 4.

2.3 The Local Taxation Working Group has met five times since then and considered officer reports on the following local taxation models:

- existing local tax arrangements;
- reformed council tax;
- nationally-set local income tax;
- locally-set local income tax;
- land value tax;
- local property tax based on capital values; and
- other methods of raising revenues at a local level.

2.4 The working group has also heard evidence and opinions from a number of external specialists, including:

- Sir Peter Burt, Chair of the Local Government Finance Review Committee 2006;
- Professor Roger Sandilands, University of Strathclyde;
- Angela Scott, CIPFA;
- Hilary Kelly, Institute of Rating Revenues and Valuation; and
- Professor David Bell, Stirling University.

The working group is grateful to these specialists for their time and their views have been taken into account by the working group in forming its conclusions. The working group also heard presentations from Councillor Dr Christopher Mason and Councillor David Meikle. Due consideration was also given to other studies into local taxation, including the *Burt Report*[2] and the *Lyons Inquiry into Local Government*[3].

2.5 This overview report provides a summary of the findings from individual reports on local taxation models previously agreed by the working group. Each individual report was prepared by officers and presented to the working group for discussion. Council members on the working group were then given the opportunity to request clarification and changes to these reports. There were few significant changes to reports and the final reports, which are available in the Members' library, were approved by working group members.

2.6 The working group has identified the following key issues that exist with current systems of local taxation:

[2] Local Government Finance Review Committee *A Fairer Way* 2006
[3] Sir Michael Lyons *The Lyons Inquiry into Local Government* 2007

Table 1: Concerns with existing local taxation arrangements

Issue	Concerns
Ability to pay	Many poorer households pay disproportionately more in council tax than those with higher income and wealth, often caused by eligible households not claiming council tax benefit. Council tax is based on 1991 property values and this has led to current bandings often having little correlation to current values.
Water charging	The system for water charging is often misunderstood and is the cause of many low-income households struggling to pay their 'joint' council tax and water bill. The arrangements for collection, administration and payment of water charges to Scottish Water also have an adverse financial impact on the Council
Macro-economic and behavioural	There was a consensus within the working group that the wider socio-economic impact of local taxation should be considered as part of any reform agenda. The current arrangements for council tax and non-domestic rates do not, for example, promote efficient use of derelict land.

2.7 The working group assessed each option for reform against key criteria, derived from these core concerns. A copy of the agreed approach and evaluation criteria is provided in appendix 1 and summaries of each alternative model of taxation are given in appendices 2a-e. Individual options for local taxation are summarised in this report and more detail is available within the individual reports that have been considered by the working group during the course of its work.

3. Key issues

3.1 This section provides an overview of how each model of taxation scores against the key issues and evaluation criteria[4]. Again, this assessment was undertaken with specific application to the City of Glasgow. Reference should also be made to appendices 2a-e, which provide more detail in support of these scores. We have considered water charging issues separately in section 5 and water issues have therefore not been taken into account in assessing these scores.

Table 2: Local taxation models 'balanced scorecard'

	Balanced score (1-5)						
Issue	**CTX**	**Reformed CTX**	**LIT – national**	**LIT – local**	**LVT**	**LPT**	**Hybrid LPT/LVT[5]**
Fairness	2	3	4	4	4	4	4
Efficiency	4	4	2	2	5	5	5
Predictability	4	4	2	2	3	3	3
Local accountability	3	3	1	4	3	3	3
Total	**13**	**14**	**9**	**12**	**15**	**15**	**15**

Key: CTX council tax; LVT land value tax; LPT local property tax; LIT local income tax

Fairness

3.2 Council tax is regarded as the least fair tax due to the issues identified with benefit take-up and the absence of recent revaluations. The other tax models score well against this criteria primarily as they could potentially address the ability to pay issue and assume (for property / land taxes) regular revaluation. A reformed council tax fairs less well since it would retain the banding system, which immediately distorts the correlation with ability to pay, especially in properties close to the arbitrary banding values.

Efficiency

3.3 Tax models were assessed under this principle as to how efficient they would be to administer and collect, and also how favourable the unintended / wider impact of the tax would be on socio-economic factors. Therefore all the property / land based taxes score well since expertise, systems and controls are already in place and there is a strong view that property and / or land should be retained in the overall basket of taxes. Council tax and reformed council tax is slightly marked down since it does not carry the potential favourable socio-economic factors as LPT or LVT.

3.4 Both models of LIT score poorly against this principle since they would potentially be costly to collect and could result in negative external outcomes (for example, tax avoidance activities and the impact on employers and the wider Scottish economy).

Predictability

[4] Refer to appendix 1.

[5] After hearing from external experts and considering local tax models in other countries, the working group agreed to expand its scope to include consideration of a LPT / LVT hybrid option.

3.5 Council tax and a reformed council tax would clearly be the most predictable due to the experience the Council has with regard to levels of revenue. All property / land based models would be relatively predictable over time since property values are likely to vary less than earned income, for example. Furthermore, valuation changes could be anticipated and managed according to the revaluation policy.

3.6 LIT models would be much less predictable and dependent on robust information from external agencies, such as HMRC. There are concerns that HMRC would only be able to provide information on earned income attributable to specific UK regions based on data up to 2 years old. It can be argued that earned income is a closer proxy to broader economic conditions but in that sense, local authorities would be less able to manage revenues, especially where the levy rate was set nationally.

Local accountability

3.7 Factors impacting these scores include the ability of the tax models to address the gearing issue, broaden the local government tax base and the inherent fiscal power attributed to local authorities. Clearly, a nationally set LIT scores very poorly against this criteria since local authorities would neither set the rate nor be responsible for collection. All other models, including a locally set LIT, score relatively well since local authorities could set their own tax rates. Equally, all options have been marked down for not directly addressing the current gearing issue.

3.8 The working group also considered other local revenue-raising schemes, including

- local sales tax;
- local tourist tax;
- local environmental tax; and
- rateable values local property tax.

Whilst these are not necessarily local taxes, they warrant consideration since they could potentially contribute to locally raised funds. In most cases, these options would not be appropriate as a full replacement for existing arrangements but they could help address the 'gearing issue' as supplementary taxes. The working group's conclusions on these supplementary taxes are set out in table 3:

Table 3: Supplementary taxes – conclusions

Tax	Conclusion
Local sales tax	There are insufficient arguments to support the introduction of a local sales tax. Glasgow in theory loses some of the beneficial outcomes the Council creates through developing a vibrant commercial centre. However, this issue would perhaps best be addressed through reform of the NDR redistribution methodology.
Local tourist tax	There seems to be consensus that a local tourist tax is worth considering. However, this would have to be down to local discretion and subject to detailed business planning to ensure that any levy was not counter productive (for example by significantly reducing visitor numbers).
Local environment tax	Local environmental taxes and charges clearly hold potential benefits as part of the environment agenda. However, care should be taken to ensure that reliance is not placed on sources of revenue that may not be recurring or stable in the medium / long term.

The working group also considered a reversion to a rateable values property tax for completeness. This was dismissed on the grounds that it would not address concerns identified with council tax and would likely add to confusion for tax payers.

3.9 Following a presentation by Councillor Dr Christopher Mason, the working group agreed that issues surrounding local taxation should form part of a wider debate on fiscal powers at both the devolved and local level. Currently, local government effectively has no fiscal authority (primarily due to the concordat and council tax 'freeze', coupled with the 'gearing effect'). The working group is of a view that, in Scotland, we should work towards a system that would give local government fiscal powers commensurate with its responsibilities. It therefore makes sense to consider local fiscal autonomy within the context of the fiscal powers of the Scottish Government. This is currently under consideration through the Commission on Scottish Devolution ('the Calman Commission').

Risk assessment

3.10 Within each report considered by the working group, tax models have been subject to a high level risk assessment. This has identified a number of significant issues that should be considered in assessing each tax model.

3.11 Council tax should be discounted: the status quo is not regarded as an option due to the significant concerns identified. Failure to address these concerns could have negative outcomes for Glasgow and may result in collection difficulties. A reformed council tax and LPT are regarded as low risk since they do not require a change in the tax base and would use existing systems. Conversely, LIT and LVT options are higher risk due to the significant changes required. A LVT / LPT hybrid tax avoids the change risks associated with LVT whilst enabling the tax regime to move eventually towards capturing the key benefits of LVT.

4. Evaluation of options

4.1 In this section we provide a high level summary of the findings of the working group against each of the models for local taxation considered. Further detail on each taxation model can be found in the individual reports considered by the working group.

Reformed council tax

4.2 The council tax is a property tax levied on the capital value of domestic property as at 1991. Each property was attributed to one of eight valuation bands. Each band has a weighting, which determines the relative amount of tax levied by the local authority on properties within each band. There are various discounts and exemptions available, as well as a means tested council tax benefit system. The council tax is therefore essentially a hybrid tax with elements of personal, property and income related components (50% property and 50% personal / income related).

4.3 In theory it is possible to address all the key concerns with the existing local taxation arrangements through co-ordinated and targeted reform of the council tax. However, this would require strong partnership working and effective consultation between all interested national and local parties.

4.4 There would also be a significant risk that all these strands of reform would not result in a fully satisfactory tax regime. Therefore reforms to the council tax should only be considered as a short term solution to some of the more pressing concerns. Table 4 summarises the key strands of reform that should be considered.

Table 4: Reformed council tax – key reforms

Reform	Comment
Revaluation & re-banding	Would increase the credibility of the tax and, where possible, address elements of 'unfairness' at the bottom and top of the banding scale. However, any kind of banding immediately distorts a tax regime and builds-in levels of unfairness, regardless of frequency of revaluation.
Reform of existing benefits, rebates, discounts and exemptions	Should be implemented with a view to increasing take-up and ensuring that low income households do not pay any greater proportion of their annual income on local taxation and water charges than wealthier households.
Comprehensive reform of the water charging system	This is explored further in section 5 and would be a crucial aspect of any reformed council tax.
Other reforms	Consideration of targeted 'safety net' initiatives, including deferred payment schemes, 12 month payment cycles and 'circuit-breaker rebates' (to assist cash-poor, asset rich households such as pensioners).
Public education	Continued public education and awareness initiatives on the nature and purpose of local government funding.

4.5 Many of these reforms move a reformed council tax closer to a local property tax as envisaged by the Burt Report. The Burt and Lyons reports also challenge the retention of council tax bands and instead propose a discrete charge based on capital values. This is explored further in 4.21, below.

LIT nationally set

4.6 The working group considered a nationally set local income tax ('LIT') to be that outlined in the Scottish Governments 2008 consultation. The consultation proposed a replacement of the existing council tax with a nationally set 3% LIT, to be raised on earned income only, at basic and higher income brackets. The tax would be collected centrally by HMRC using existing HMRC income tax rules and regulations.

4.7 The Council approved a detailed response to the Scottish Government's consultation on LIT. Whilst reference was made to that response, a separate report was prepared for the working group assessing LIT against the specific agreed working group criteria for consistency. Additional information on the Scottish Government's LIT proposals that came to light between July and November 2008 were also reflected in this fresh assessment of LIT.

4.8 A nationally set LIT could address a number of concerns that exist with the current council tax arrangements. A nationally set LIT would:

- be more reflective of ability to pay, without any requirement for the existing benefits and rebates systems;
- avoid any need to revalue or subjectively band property; and
- likely be more buoyant than a property-based tax.

4.9 However, a nationally set LIT would give rise to the following key concerns:

- the proposals do not tax interest and dividend income and to do so may prove difficult. This would lead to potential tax avoidance and an inherent unfairness;
- a LIT only applicable in Scotland would be difficult to administer and costly to collect. Robust and up to date information on the residency of all workers would be required from employers. This may be a particular problem in Glasgow where there are many mobile and transient workers. There would also be scope for deliberate tax avoidance. Overall it is likely that collection rates would be less than the existing council tax;
- the scale of change would likely result in significant macro-economic repercussions that have not yet been fully explored (for example, the impact on employers, the housing market and sustainability issues);
- there would be significant and costly upheaval across local and central government, in turn impacting employers and the business community. This kind of reform could not be phased in, adding to the immediate operational risk;
- a nationally set LIT can be argued to remove completely any fiscal local accountability to tax payers, significantly changing the relationship between local government, the electorate and the Scottish Government. The 'gearing' issue could also become much more acute with local authorities unable to self-fund local initiatives and local cost pressures;
- LIT would remove property from the Scottish basket of taxes, replacing it with further reliance on earnings as a source for public finance; and
- there are potentially a number of significant legal obstacles to implementation that would have to be resolved (for example, EU legislation, charters of local and self government, and the legal competency of the Scottish Parliament to levy a nationally set tax on earnings at both basic and higher income tax rates).

4.10 There are therefore a number of concerns with a nationally set LIT. These concerns are reflected in many responses to the Scottish Government's consultation document[6] submitted by a number of other interested organisations and the Burt and (to some extent) Lyons reports.

4.11 Whilst there may be ways to address many of the key concerns identified above, this would require significant parallel reform and legislation, which increases strategic and operational risks associated with changes to the local taxation system of this magnitude. The conclusions reached in the Council's response to the Scottish Government's local income tax consultation are therefore still valid.

LIT locally set

4.12 A locally set LIT would work in the same way as a nationally set local income tax, except that the rate would be set by local government. The impact, benefits and concerns with a locally set LIT are therefore broadly similar. A locally set LIT would:

- be more reflective of ability to pay, without any requirement for the existing benefits and rebates systems;
- avoid any need to revalue or subjectively band property; and
- likely be more buoyant than a property-based tax.

4.13 However, a locally set LIT would give rise to the following key concerns:

- it would still be difficult to tax efficiently interest and dividend income, leading to potential tax avoidance and an inherent unfairness;
- a LIT only applicable in Scotland would be difficult to administer and costly to collect. Robust and up to date information on the residency of all workers would be required from employers. This may be a particular problem in Glasgow where there are many mobile and transient workers. There would also be scope for deliberate tax avoidance. Overall it is likely that collection rates would be less than the existing council tax;
- the scale of change would likely result in significant macro-economic repercussions that have not yet been fully explored (for example, the impact on employers, the housing market and sustainability issues);
- there would be significant and costly upheaval across local and central government, in turn impacting employers and the business community. This kind of reform could not be phased in, adding to the immediate operational risk; and
- LIT would remove property from the Scottish basket of taxes, replacing it with further reliance on earnings as a source for public finance.

4.14 The key differences under a locally set LIT compared to a nationally set LIT would be as follows:

- local variability would maintain local democratic accountability with local authorities accountable to local tax payers for local taxation rates;
- this would in turn increase the administrative burden on local authorities, employers and HMRC (as the collection authority). That is, individual data on earnings and place of primary residence would have to be obtained and kept up to date at local authority level; and

[6] Scottish Government *A Fairer Local Tax for Scotland - Analysis of Consultation Responses* November 2008

- concerns over the Scottish Government's legal competence to raise a nationally set LIT would not be an issue under a locally set model (locally variable LIT would clearly be regarded as a local tax and therefore within the powers of the Scotland Act). Similarly, a locally set LIT would not be at risk of contravening EU self-government legislation or charters.

However, the powers of HMRC to collect a local tax, and the legal requirement on companies based outside Scotland to share employee data would remain as concerns.

4.15 A locally set LIT could therefore address some of the concerns identified with the existing council tax. However, there are some key concerns with a locally set LIT, primarily relating to administration and collection issues, change-risks and the difficulty in taxing invested wealth.

Land value tax

4.16 There are a number of approaches to land value tax ('LVT') but the basic premise is to tax land owners using a set poundage, as applied to an assessed land value. The land valuation would, in turn, be based on the market value at optimum current permitted use, according to existing planning permissions. For domestic property, this would be its permitted residential use. LVT could be set locally or nationally, and replace a large number of existing taxes or just be used as a supplementary tax.

4.17 LVT is supported by a number of economists and policy and pressure groups, who refer to persuasive theoretical and macro-economic benefits of LVT. However, the absence of LVT experience within the UK means that it is particularly difficult to assess the practicalities of LVT and to pinpoint the exact LVT scheme that should be considered and assessed.

4.18 Nevertheless, Council officers have considered the practical implications of LVT in principle and no insurmountable issues have been identified. There are, however, a number of unknowns and potential difficulties that would have to be properly considered before LVT could fully replace any existing tax system.

4.19 With a view to obtaining more reliable and local evidence on LVT, the working group approved a pilot study of the potential impact of LVT on a designated area of Glasgow, with a view to exploring further the practical implications of LVT. The scope of this pilot was later expanded to include consideration of a local property tax and a hybrid LVT / LPT tax. The findings of the pilot study are summarised at 4.36.

4.20 LVT potentially holds a number of key benefits:

- LVT would be arguably more progressive than the existing council tax;
- existing systems, controls and valuation expertise could be translated for use in a LVT regime, reducing the operational burden of change on the Council;
- LVT brings numerous macro-economic and behavioural benefits, whilst supporting the environment agenda;
- regular land revaluations would be relatively easy to carry out, contributing to the fairness of the tax further;
- LVT is relatively buoyant whilst retaining the balance of stability and predictability; and
- from a sustainability perspective, LVT has a constant tax base, incentives to best-use available land and helps prevent urban sprawl and land banking. Public investment could also be essentially locally-funded over time.

4.21 A wholesale change to LVT would, however, be high risk if it were not phased in and preceded by detailed testing and further in depth pilot studies. Furthermore, depending on the nature of the LVT introduced, additional parallel reform may be required to address concerns with existing taxation arrangements, including:

- water charging issues (the ability of low income households to pay and local authority collection arrangements – see section 5); and
- take up of council tax benefit (which would have to be addressed in any LVT rebate scheme).

4.22 The following specific additional issues were noted by the working group during discussions:

- there are different approaches to setting a value for land (for example an annual rental value, or a market value for permitted use). This kind of decision would have to be taken based on detailed financial modelling;
- whilst there is debate as to the ability of land owners to simply pass on LVT charges in rents, the working group agreed that consideration would have to be given to protecting tenants;
- consideration would also have to be given to the impact on Registered Social Landlords. For example, GHA would have to include a LVT element in rents and this in turn would see a corresponding increase in claims for housing benefit, which is ultimately funded by the DWP[7];
- experience in developing city centre land that has fragmented ownership suggests there may be real difficulty in identifying land owners for LVT purposes;
- LVT may be difficult to explain to taxpayers so there would have to be effective public liaison and education to ensure support for LVT; and
- the treatment of agricultural land would have to be considered as part of a wider discussion on the possible replacement of NNDR (and the subsequent impact on businesses).

None of the concerns identified with LVT are deemed insurmountable but they would have to be considered and resolved in adopting any form of LVT.

4.23 From a local democratic accountability perspective, the impact of LVT would depend on the nature of reform. For example, a nationally set LVT would remove local accountability, whilst at the same time potentially falling foul of legal objections. However, a locally set LVT would likely require central government equalisation, with a risk that favourable macro-economic benefits of LVT are distorted and the continuation of existing gearing issues.

4.24 LVT should therefore not be discounted as an option for local taxation reform: it potentially holds many benefits and addresses many existing concerns with the council tax. Whilst there are a number of concerns with LVT, these often arise from the ambiguous and unfamiliar nature of the tax, coupled with the absence of UK empirical evidence and practical understanding. This therefore implies a need for further detailed pilot studies and longer lead-in times prior to implementation.

4.25 A series of detailed national pilot studies, with potential localised targeted LVT on derelict land, would be a sensible way forward. The Glasgow pilot commissioned by the working group has been a valuable exercise in identifying indicative issues for Glasgow and has helped progress the LVT debate. The working group appreciates

[7] It is reasonable to suggest that this would equate to the decline in council tax benefit no longer claimed.

the work undertaken by the City Assessor's team in completing the pilot study within very demanding timeframes.

Local property tax

4.26 The working group took a local property tax ('LPT') to be that outlined in the Burt report, which recommends a LPT be introduced, based on the capital value of individual properties and payable by households occupying properties (whether as owner-occupiers or as tenants) and by owners of second homes and unoccupied properties

4.27 LPT tax carries many of the benefits that a reformed council tax and LVT imply, insofar as removing bands and regular revaluations can increases fairness and credibility. The main difference to LVT is that LPT taxation continues to tax the resident in a property rather than land owner, and includes tax on property and development, by virtue of the valuation methodology.

4.28 LPT formed part of the recommendations in the Burt report and is supported by a number of practitioner bodies. Given this would be a continuation of tax on property, a LPT tax would be relatively easy to plan for and implement: existing systems, controls and valuation expertise could be translated for use in a LPT regime, reducing the operational burden of change on the Council. This is supported by the findings of the City Assessor's pilot study summarised at 4.36.

4.29 There are a number of other key benefits with LPT:

- regular land revaluations would be relatively easy to carry out, contributing to the fairness of the tax further;
- local tax payers are likely to find a discrete capital value easier to understand as a basis for their tax liability, rather than an arbitrary band or a land value;
- it is relatively buoyant whilst retaining the balance of stability and predictability; and
- from a sustainability perspective, there would be a relatively constant tax base, and provides incentives to best-use available property.

4.30 However, as with LVT, additional parallel reform would likely be required to address concerns with existing taxation arrangements, including water charging issues and take up of rebates / benefits. The only other significant concern with LPT is that it perhaps does not capture any of the macro-economic benefits identified with LVT.

4.31 From a local democratic accountability perspective, LPT would maintain existing levels of accountability within local authorities. However, additional tax raising powers would be required (for example on derelict land or through supplementary taxes) to increase local fiscal autonomy and in turn address the existing gearing issue.

4.32 LPT as outlined in the Burt report is therefore worthy of consideration. It would help address a number of existing concerns with the council tax and, coupled with water and benefit reform, could see the development of an effective local tax regime. It should, however, be noted that there is a wider debate to be had: for example, the potential macro-economic and socio-economic impact of differing land or property-based taxes.

LVT / LPT hybrid tax

4.33 The working group heard various discussions around both land value and local property taxation. With reference to schemes in Pittsburgh Pennsylvania and other cities, the working group agreed to expand its remit to include consideration of a LVT / LPT hybrid option.

4.34 It is possible to create a hybrid LVT / LPT. This essentially assesses land and improvement values with a view to capturing the benefits of LVT within a LPT context. The key benefits would be those identified with LVT, including macro-economic benefits, whilst retaining LPT benefits. As such, it would be lower risk than LVT: there would not be as significant change-risks and any immediate macro-economic 'shocks' would be dampened by including a property element to the tax assessment.

4.35 The key benefit of a hybrid approach is that it enables the tax authority to gradually introduce or increase the tax rate on land and reduce the rate on improvements. This would enable LVT elements to be phased in, help prevent the change-risk factors associated with LVT and enable local government to fine-tune the local economy over time.

4.36 A LVT / LPT hybrid tax is perhaps the option that best captures the benefits of LVT and LPT. Whilst relatively easy to implement and administer (as with LPT), the inclusion of LVT elements should theoretically bring macro-economic benefits, as illustrated in the Pittsburgh example.

4.37 The City Assessor's pilot study considered a hybrid tax option and the findings are summarised in 4.36, below.

Council pilot study: LVT, LPT and hybrid option

4.38 During the working group's consideration of LVT and LPT options it was agreed that a pilot study should be conducted into the possible implications of these options for Glasgow. The scope was later expanded to include a LVT / LPT hybrid option. The focus of the review was to:

- confirm how such tax models might work in practice;
- consider the potential impact on Glasgow households and the Council; and
- identify any practical or technical issues that would have to be considered.

4.39 The pilot study looked at ward 18 (East Centre) to try and capture as many different property and land types as possible. The ward includes a mix of residential, commercial and industrial units, as well as vacant and derelict land. And covers around 5% of Glasgow homes. Assuming the same amount of revenue is to be raised as under the council tax, the City Assessor estimated a tax rate of around 1p for a LPT and 3p for LVT[8]. Detailed findings are provided in appendix 3.

4.40 The key findings of the pilot study are summarised in table 5, below.

Table 5: LPT / LVT pilot study - key findings

#	Key finding
1.	LPT would be relatively straightforward to implement using recent property transactions (the pilot study used 2007-08 data).
2.	LVT would be more challenging to implement (primarily due to less available data on land sales) but with clarity on the method of valuation to be used[9], LVT would be possible to implement with sufficient lead in time.
3.	A hybrid option would not pose any insurmountable problems. The nature of the hybrid model to be used would largely be a political decision based on what the tax is meant to achieve.

[8] These residential rates have been calculated based on Ward 18 data only. In implementing a LPT or LVT, the rate would vary depending on data on a Glasgow-wide, or indeed Scotland-wide basis.

[9] It would potentially be possible to influence a land owner's LVT liability by either introducing different tax rates, or through varying the taxable value.

#	Key finding
4.	Consideration was given to industrial, retail and commercial units. Again, no insurmountable issues were identified. However, consideration would have to be given to assessing LPT and LVT values for units that occupy a site within a larger residential site (a shop on the ground floor of a tenement building, for example).
5.	Any LVT element would require considerable liaison between the Council's planning officers and the City Assessor. In turn, planning decisions would have to be closely linked to the city's development and regeneration priorities.
6.	Applying a LVT to derelict or vacant land would clearly encourage development.
7.	As expected, the possible charge per household is estimated to change under both LVT and LPT. The main factor behind these changes, which are illustrated in appendix 3, is believed to be the absence of council tax revaluation since 1991.[10]
8.	Once the initial LPT / LVT database is set up it would be relatively straightforward to maintain and undertake revaluations.
9.	LVT in particular can be difficult to understand and explain. Whilst much of this is due to the different approaches to LVT available, the pilot study confirmed that it would be challenging to explain LVT to the general public.

Non-domestic rates reform

4.41 Whilst the working group has not considered non-domestic rates in isolation, issues have been identified as part of reports on domestic taxation models. The main concern centres on the fact that Glasgow makes a net contribution to the NDR pool of around £70 million per annum. Essentially, a significant amount of any benefits to the local business economy deriving from Council regeneration investment is passed onto the NDR pool.

4.42 There are a number of options to address this issue:

- review the national redistribution methodology;
- create greater local autonomy in raising non-domestic taxes (for example through expanding existing BID schemes, or implementing local supplementary taxes – refer to 2.2 above); or
- replace NDR under a LVT or hybrid LVT / LPT tax system (indeed, a true LVT would have to apply to non-domestic properties since it would be raised on land).

4.43 Therefore reform of NDR depends on the nature of reform of domestic local taxes and should be considered in that context.

[10] Per section 74 of the Local Govt Finance Act 1992, which sets out the amounts payable for each Band.

5. Water charging

5.1 It was noted during discussions at the working group that issues surrounding water charging have been relevant in considerations of all local tax models and should therefore be de-coupled from the debate and subject to a separate analysis. This is consistent with the views of Sir Peter Burt, who noted that water charging issues should be addressed prior to any wider reform of local taxation in Scotland. Once water charging reform has been removed from the debate, it is then much easier to evaluate different forms of local taxation. A separate water charging report was therefore prepared for the working group focussing on the particular issues in Glasgow.

5.2 Table 6 summarises the key concerns with existing water charging arrangements.

Table 6: Water charging – key concerns

Issue	Concerns
Council bears disproportionate cost of collection	Scottish local authorities collect water and waste water charges on behalf of Scottish Water in return for a contribution towards the cost of collection. Whilst water charges are not a tax, they do form part of the council tax collection regime. It is the Council's experience that the cost of collection exceeds the contribution from Scottish Water. Furthermore, proportionately more water charge debt is more than one year old (79%) compared to council tax debt (74%), indicating that water charge debt is somewhat more difficult (and therefore costly) to collect than council tax debt.
Ability to pay	There is a core of Glasgow residents who do not pay their annual council tax liability and waste water charge in the given year. A significant proportion of this debt relates to water charges, proportionately more than council tax elements of household debt. One reason for this is perhaps due to the absence of sufficient benefits or rebates for water charges.
Income support deductions are inadequate	If a debtor is on full income support, then the Council is able to receive deductions from income support payments from the DWP. However, this statutory amount is not sufficient to meet the in-year water charge and consequently households on income support (and therefore full council tax benefit) often find their water charge debt steadily increasing over time.

Issue	Concerns
Allocation of amounts collected	Water charges are paid over to Scottish Water according to a 70:30 statutory formula at a global level, with Scottish Water receiving 30% of all council tax and water charges collected by the Council. Glasgow is particularly disadvantaged by this formula due to the high number of households whose only liability is water charges (that is, council tax is fully rebated). This is also the case for those who do not pay, or pay less than their ongoing liability (often the case via income support payments). If every single payment was analysed and allocated to the two separate elements making up the account balance, the Council would pay a lesser proportion of cash collected to Scottish Water. Previous estimates show this is at least £1m per year. In effect, the Council pays more to Scottish Water than has been collected by the Council for water charges.
Public understanding / local accountability	The arrangements for water charging and collection are often not fully understood by council tax payers, who end up holding local authorities to account for this element of their local taxation bill. From an accountability perspective, existing water charging arrangements are therefore not satisfactory.
Non-domestic water charging	Only new non-domestic properties will have an up to date rateable value (existing properties use a 1995 rateable value on direction from the Water Commission). However, the Council's Assessor updates the rateable value for non-domestic properties every five years for NDR purposes. This therefore means that existing non-domestic properties will always pay water charges based on 1995 rateable values, whereas new properties will have an up to date value applied. Scottish Water has advised us that it would require a new Direction to change the rateable value used.

5.3 There are therefore a number of significant concerns relating to existing water charging arrangements and there is a consensus amongst working group members about the need to address these issues. The working group therefore recommends that the Council makes representations to the Scottish Parliament to reform water charging in Scotland; the specific recommendations are set out below.

5.4 Interim measures that would help address immediate concerns with water charging include:

- creation of a water charge 'circuit-breaker' or 'allowance' below which no household in Scotland is billed directly for water or waste water. This should be set at a level so as to catch as many low-income households as possible; or
- aligning water rebates to council tax rebates, ensuring that households in receipt of council tax benefit automatically receive rebate to their water bills.

5.5 There should also be a wholesale review of existing mechanisms for aligning cash collected from households by local authorities to water and council tax elements, along with a review of the contribution Scottish Water makes to local authorities for administration and collection costs.

5.6 Consideration should be given to ceasing direct water charging for domestic properties entirely and instead funding Scottish Water from central government funds. This would be a long term solution and could be achieved through the Scottish Variable Rate, which would be easy to administer and low-cost, whilst resolving all the issues identified in this paper. This solution has the added benefit of avoiding the need for a costly means-tested water rebates system. The Council may find it appropriate to raise this issue with the Scottish Government, Cosla, HMRC and Scottish Water.

5.7 It is recommended that non-domestic properties continue to be charged directly for water and waste water under existing arrangements. However, it makes sense for rateable values, which are used to calculate the water charges for almost all non-domestic properties to some extent, to be updated as and when a statutory revaluation is undertaken.

6. Conclusions

6.1 The working group has confirmed that a number of significant concerns exist with current local taxation arrangements and that the *status quo* is therefore not an option.

6.2 Currently, there is a democratic system of local government, where Councils in Scotland currently hold no substantive fiscal power. A fundamental question that has to be addressed at national and devolved levels is whether to replace local government with local administration, or to give greater fiscal powers to locally elected authorities. The working group believes that the public desire a democratically accountable local authority and therefore local fiscal reform is required. There is ongoing debate around the Scottish Government's fiscal powers. The working group therefore feels that this debate should be extended to local government.

6.3 The working group has concluded that council tax in its current form and local income tax, whether set nationally or locally, are not to be recommended.

6.4 The working group has identified two strands for reform: immediate steps and longer term solutions. Short term efforts should be focussed on reforming the council tax wherever possible. Options for short term reform are summarised in table 7. A longer term, more permanent solution would be best served by pursuing a local property tax as envisaged by the Burt report, with a built-in mechanism to enable land value tax elements to be phased in with the ultimate goal of creating a LPT / LVT hybrid tax.

Table 7: Reformed council tax – recommendations

Reform	Comment
Revaluation	There should be a Scottish council tax revaluation. It is likely that this would lead to significant changes in council tax liabilities for some households. However, transitional arrangements would help phase-in any significant increases. A robust appeals process would also help to ensure buy-in from local taxpayers.[1] Whilst it is true that any kind of banding immediately distorts a tax regime and builds-in levels of unfairness, this issue would be best resolved through the introduction of a local property tax as recommended at 6.4.
Reform of existing benefits, rebates, discounts and exemptions	There are various ways in which council tax benefit take-up could be increased and these should be explored at a national level. For example: • savings limits on benefit assessments could be increased; • the application process could be simplified and, in some cases, even automated; • the term 'benefits' can discourage potential claimants from applying and should therefore be re-branded as a 'rebate'; and • central government funding could be introduced where local authorities have significant student populations, to reflect the discounts awarded.
Other reforms	Consideration of targeted 'safety net' initiatives, including deferred payment schemes and 12 month payment cycles. Central government could also create a 'circuit-breaker rebate' whereby any household that pays more than a set proportion of their annual income in property tax receives a rebate.
Public education	Continued public education and awareness initiatives on the nature and purpose of local government funding.

6.5 Another immediate step, which would have a very beneficial impact, would be to reform water charging arrangements. The creation of a water charge 'circuit-breaker' or 'allowance' below which no household in Scotland is billed directly for water or waste water would help low income households. Alternatively water rebates could be aligned to council tax rebates, ensuring that households in receipt of council tax benefit automatically receive rebate to their water bills.

6.6 There should also be a wholesale review of existing mechanisms for aligning cash collected from households by local authorities to water and council tax elements, along with a review of the contribution Scottish Water makes to local authorities for administration and collection costs. Consideration should be given to ceasing direct water charging for domestic properties entirely and instead funding Scottish Water from central government funds. This would be a long term solution and could be achieved through the Scottish Variable Rate, which would be easy to administer and low-cost, whilst resolving all the water charging issues identified by the working group.

6.7 Water charging for non-domestic properties appear to be less problematic but the working group is concerned by the fact that new non-domestic considerations are charged based on up to date rateable values, where existing properties use 1995 valuation date, despite up to date valuations being available.

6.8 The remit of the working group was to identify a local taxation model that would best meet the needs of Glasgow City Council and it is within that scope that the working group has delivered its findings.

6.9 Local accountability was agreed as a key principle under which each of the local taxes was reviewed. Although the Council has the power to set its own Council Tax this represents only 15.5% of Glasgow's budget in 2009-10. In addition, this power has been diluted by the introduction in 2008-09 of additional central government funding for Councils who freeze their Council Tax, thereby making even a modest increase untenable. This was recognised by the working group as not being a desirable, or sustainable, situation

6.10 .The working group recognised that for local government to be truly effective, greater local fiscal powers are required. To achieve this, it is agreed that more local revenue-raising powers are necessary, through direct taxation as outlined in this paper, supplemented by other local charges (such as tourist taxes or environmental charging schemes). There is no reason why local government should be funded by one predominant tax base.

Recommendations

7.1 The working group has identified a number of recommendations for reform. It is recommended that the Council makes representation to the Scottish Parliament on these as summarised in the table below.

Table 8: Summary of recommendations

Recommendation	Comment
Immediate reform of council tax	• Undertake a council tax revaluation.[11] • Increase council tax benefit take-up. • Consider other reforms to increase fairness and ability to pay.
Long term move to LPT / LVT hybrid tax	• Start planning for replacement of council tax with a local property tax, incorporating powers to introduce gradually land value tax elements.
Water charging	• Reduce water charge burden on low income households through access to greater rebates / benefits. • Address administration and collection issues that significantly impact local authorities. • Revise statutory orders to enable up to date rateable values to be used for all non-domestic property water charges. • Consider longer term replacement of direct water charging for domestic properties.
Expand local government fiscal powers	• Review the extent of local authority fiscal powers as part of the wider debate on Scottish Parliament's fiscal powers. • Address gearing issue by reducing dependence on central government funding. • Broaden local tax base through local charging schemes, such as tourist taxes and charges linked with the environment agenda.

[11] The cost and upheaval arising from council tax revaluation may not be appropriate depending on the timescale of any move to a LPT / LVT model.

Appendix 1: Local Taxation Working Group scope & approach

1. Scope

1.1 It is proposed that the working group consider and assess the following local taxation models:

a) Existing council tax arrangements;
b) Reformed council tax;
c) Local income tax (nationally set);
d) Local income tax (locally set);
e) Land value tax;
f) Local property tax (based on capital values); and
g) Other models (for example sales tax, tourist tax, rateable values property tax etc).

2. Approach

2.1 It is proposed that the working group should meet roughly six-weekly to consider each option. A paper will be prepared assessing each taxation model and focussing on the potential impact on Glasgow households and the City Council.

2.2 Each taxation model under consideration will be evaluated against the following criteria:

Principle	Criteria
Fairness	• Reflects ability to pay and should be progressive (or at least proportionate) with a view to lessening the burden on poor households. • Includes consideration of wealth *and* income.
Efficiency	• Raises the same overall revenue as existing council tax arrangements. • Prevents unintended / adverse socio-economic impact and negative externalities. • Minimises tax avoidance and cost of collection. • Easy to understand and administer, and is transparent.
Predictability	• Reflects economic trends and is relatively buoyant. • Balances this with certainty, predictability and stability.
Local democratic accountability	• Set, collected and administered locally. • Maintains or enhances local accountability.

2.3 In keeping with the Council's response to the local income tax consultation, there will be an assumption that existing levels of council tax benefit revenue will continue to be received. Throughout the review, consideration will also be given to general issues regarding the balance of funding and potential equalisation issues.

2.4 A shortlist is provided at appendix 1 showing potential external experts that the working group may wish to invite to give evidence on the various options being considered.

3. Timetable

3.1 A suggested timetable of meetings is provided below (exact dates to be confirmed). It is proposed that the Local Taxation Working Group should meet on a six-weekly basis in order to give Council officers sufficient time to prepare relevant papers.

#	Meeting	Agenda
1.	Late August 2008	• Scoping & planning
2.	Early October 2008	• Council tax – current issues and concerns • Reformed council tax
3.	Early December 2008	• Nationally set local income tax • Locally set local income tax
4.	Early January 2009	• Local property tax – land value • Local property tax – capital value
5.	Mid February 2009	• Other taxation models • Overview / conclusions
6.	April 2009	• Finalise Council report [12]

3.2 Council officers will prepare a report during March 2009 for presentation to a final meeting of the Working Group in April 2009. Thereafter this will be reported to Council.[5]

[12] As outlined in this summary report, the working group decided to request a pilot exercise be undertaken on LVT, LPT and a hybrid tax. In order to allow sufficient time for this to be completed and presented to the working group, the deadline for finalising this summary report was extended slightly.

Appendix 2a: Appraisal of existing council tax issues against possible reformed council tax

Appendix 2a provides an overview of the benefits and concerns identified with the existing council tax regime, according to the agreed set of criteria and principles, and suggests how aspects of reform could impact these issues.

Impact of council tax reform on existing benefits and concerns - revised

Criteria / Principle	Existing council tax benefits	Existing council tax concerns	Potential council tax reform and related impact
Fairness	• Visible and transparent • Benefits system provides a certain element of means-testing • Property is one indicator of wealth and much of the country's wealth is stored in property • Discounts and exemptions adjust for income-earning capacity of household • Income tax already contributes significantly to local government finance • Difficult to evade payment	• Does not always reflect the ability to pay and is not progressive • Current valuations often bear little resemblance to current values • Banding system effectively caps the maximum any household will pay • Households on full council tax benefit are still required to pay a water charge and often struggle to do so • Property-wealth does not necessarily reflect ability to pay an annual cash levy	**Revaluation & re-banding** • Could restore credibility to the banding system and, to some extent, reduce some regressive aspects of the council tax. Revaluation would have to be a statutory requirement and be built into legislation to prevent any political agenda influencing the timing and of revaluations. • There seems to be a consensus between Burt, the IRRV and CIPFA that revaluation should be implemented along with a discrete capital values property tax, instead of banding. However, this would not have a significant impact on the 'ability to pay' issue for Glasgow where there are relatively few high value properties to reduce the burden on poorer households. The capital values option will be the subject of a specific report to the working group at a later date. • It is likely that revaluation would impact the structure of local government funding across Scotland. For example, Glasgow would possibly see a relative increase in the number of band D properties with a subsequent increase in expected council tax revenues. However, this would potentially then be offset by a decrease in the central government grant settlement. Therefore, some households in Glasgow could see their council tax bills increasing but the net revenue available to the Council would remain the same. **Council tax benefit / water charging reform** • Would be the primary tool to increase the fairness of the council tax. There are many options for reform but increasing benefit take-up and expanding the rebate provided for water charges could address

Criteria / Principle	Existing council tax benefits	Existing council tax concerns	Potential council tax reform and related impact
			many aspects of the 'fairness' issue. • The IRRV have identified a number of options for benefit / rebate reform, in addition to those summarised by Burt and Lyons. For example, IRRV suggest that the single person discount should be scrapped and replaced with a more targeted, means-tested relief. This would also encourage more efficient and sustainable use of property. Whilst this may be theoretically plausible, it is likely to cause considerable concern amongst single person households. The IRRV also suggest that a new targeted relief scheme should run in parallel with a reformed council tax benefit scheme. • Other options for reform (that together could dramatically increase the fairness of the council tax) are deferred payment schemes, 'circuit breaker' rebates, increases to discounts and reliefs (including increased central government funding for areas with many students) and allowing payment over 12 months. **Public education and information** • Whilst not a new initiative, this is important in continuing to increase benefit take-up. There is also potential to increase understanding and credibility of the whole system. CIPFA have noted that there is scope for better public reporting on use of public money. **Supplementary taxes** • Possible to raise local supplementary taxes with a view to reducing council tax burden on low income households. Potentially complex macro-economics and would likely require Scottish Government or UK legislation. This proposal is supported by the IRRV but consideration would need to be given to potential medium/long term decline in activity that generates such revenues (for example, the recent decline in car parking fine income).
Efficiency	• Systems and controls in place to effectively administer tax and benefits	• Eligible households do not always apply for benefit, exemptions or	• As noted above, various options available to try and increase take-up of benefit, exemptions and discounts.

Criteria / Principle	Existing council tax benefits	Existing council tax concerns	Potential council tax reform and related impact
	• Relatively high collection rates and low cost of collection • Currently yield is adequate to support required revenue • Few adverse behavioural effects and encourages property owners to make economic use of their assets	discounts • Tax payers with more than £16,000 in savings are excluded from benefit • Existing arrangements whereby local authorities collect water charges on behalf of Scottish Water are not satisfactory (see 4.10 in previous report) • NNDR valuations are not consistently applied and the system of reliefs and exemptions often has adverse impacts	• Reform of benefits system should include simplification of application process and efforts to data match with other agencies with a view to awarding automatic benefit entitlement. IRRV support increased data-sharing across agencies for this purpose. • Wholesale reform of water charging arrangements based on English / Welsh or new Northern Ireland system would likely address most of the efficiency issues identified, whilst at the same time improving credibility of council tax. • Removing water collection from Glasgow would bring no adverse repercussions. However, if water charging was to continue then there would be questions as to the ability of Scottish Water to administer the collection and their legal status to do so. • Operationally should be relatively straightforward to use most recent valuation non-domestic property data in charging for water for businesses. Would require co-ordination with Scottish Government and Scottish Water but would address inconsistency issue. • CIPFA identify sustainability as a factor that should be considered[13]. For example, the ageing population will likely result in greater pressure on taxation of earned income, suggesting the retention of a property-based tax is desirable. It can also be argued that property taxes can encourage efficient and sustainable use of land and buildings. • Significant changes to benefits, rebates and water charging would likely require legislation at UK and / or Scottish Parliament.

Criteria / Principle	Existing council tax benefits	Existing council tax concerns	Potential council tax reform and related impact
Predictability	• Tax base is relatively stable year on year and the tax yield can be predicted reasonably accurately • Retains an element of buoyancy (at least over the medium and longer term) • Cash flows can be managed relatively easily • Enables Glasgow to be subsidised through central government or DWP funding to reflect socio-economic factors • Projections indicate a 11% increase in taxable domestic properties by 2016	• Glasgow's unique socio-economic situation means collecting council tax is challenging	• Collection problems mainly relate to households that do not receive adequate benefit or water rebate. Reform of the benefit system, coupled with additional rebate for water charges, could effectively by-pass a significant proportion of households from which the Council struggles to collect council tax and water charges. • This would likely see Glasgow's collection rates increase to be more comparable with the Scottish average (which already has a relatively good collection rate compared to other forms of local taxation). • CIPFA have noted that certainty over revenues is critical to effective financial planning. There is currently a three-year focus on revenue planning within local government but CIPFA's view is that financial planning should be even longer term and that a reformed property tax would be well suited to achieving this, given the relatively greater predictability associated with such a tax base. • However, it could be argued that the recent contraction of the mortgage and property market has tarnished the perception that property is a predictable and stable proxy to wealth. This recent downturn would suggest any reformed council tax would have to be subject to regular revaluation and local authorities would have to be able to adjust tax rates to reflect the local and national economies.
Local democratic accountability	• Relatively transparent enabling the electorate to hold members to account • Clearly identifiable as a local tax	• The 'gearing' effect and the water charge issue impacts on the true level of local accountability • There is a need for additional flexibility in relation to the system of business taxation.	• There is disagreement as to whether existing 'gearing' is desirable or not. Regardless, reform of the benefits system and water charging arrangements would help reduce gearing for Glasgow by increasing revenues from local taxation. The IRRV has noted that, in their view, gearing should be reduced. • Supplementary business taxation schemes could enable the Council to further its urban regeneration programme whilst at the same time increasing transparency and links with the business community.

Source: Local taxation working group reformed council tax paper, appendix 2 041108.

Appendix 2b: Appraisal of existing council tax benefits and concerns against nationally set LIT

Appendix 2b provides an overview of the benefits and concerns previously identified with the existing council tax regime, according to the agreed set of criteria and principles, and suggests how a nationally set LIT could impact these issues.

Impact of nationally set LIT on existing benefits and concerns associated with the council tax

Criteria / Principle	Existing council tax benefits	Existing council tax concerns	Potential reform and related impact of nationally set LIT
Fairness	• Visible and transparent • Benefits system provides a certain element of means-testing • Property is one indicator of wealth and much of the country's wealth is stored in property • Discounts and exemptions adjust for income-earning capacity of household • Income tax already contributes significantly to local government finance • Difficult to evade payment	• Does not always reflect the ability to pay and is not progressive • Current valuations often bear little resemblance to current values • Banding system effectively caps the maximum any household will pay • Households on full council tax benefit are still required to pay a water charge and often struggle to do so • Property-wealth does not necessarily reflect ability to pay an annual cash levy	• LIT would be proportionate to income and therefore ensure that an individual's tax liability corresponds to ability to pay, insofar as earned income corresponds to ability to pay. • No requirement for property valuation or banding, removing requirement for regular revaluations and capping through bands. • Crucially, a nationally set LIT would not address the significant issues that exist in relation to water charging. Many households would continue to struggle to pay their water charge liability. Any LIT would therefore have to be legislated for in conjunction with water charging reform. Reference should be made to the *Reformed council tax* paper (4 November 2008) for water charge issues and options for reform. • There would also be scope for tax avoidance and a significant element of personal and national wealth would no longer be subject to taxation, with subsequent adverse behavioural impacts. The Scottish Government has announced it is looking at the potential impact on students from poorer backgrounds.
Efficiency	• Systems and controls in place to effectively administer tax and benefits • Relatively high collection rates and low cost of collection • Currently yield is adequate to support required revenue	• Eligible households do not always apply for benefit, exemptions or discounts • Tax payers with more than £16,000 in savings are excluded from benefit • Existing arrangements whereby local authorities collect water charges on	• No requirement for benefits / rebates system and therefore avoids issue of poor take-up. However, there may still be requirement for water rebating system and housing benefit administration would have to continue. There may also be requirements to monitor student status of individuals should they be exempt from LIT.

Criteria / Principle	Existing council tax benefits	Existing council tax concerns	Potential reform and related impact of nationally set LIT
	• Few adverse behavioural effects and encourages property owners to make economic use of their assets	behalf of Scottish Water are not satisfactory (see 4.10 in previous report) • NNDR valuations are not consistently applied and the system of reliefs and exemptions often has adverse impacts.	• LIT is naturally means-tested, relating to earned income. However, as noted above, there is scope for avoidance and other forms of wealth will not be taxed. • Any failure to supplement LIT legislation with water reform would mean the existing significant concerns relating to administration and collection would remain. • LIT could have a significant impact on employers in terms of administration and collection. In turn, this could affect businesses' decisions to locate in Scotland. There is also a risk that a LIT would result in disincentive to work in Scotland. • The systems and controls in place to administer, collect and monitor a LIT are not in place and would require significant change management and investment by employers, local and central government, and HMRC. There are therefore a number of operational and strategic risks associated with such a significant shift. • LIT would be a tax on individuals. The only prior experience of local taxation on individuals (the Community Charge) resulted in significant collection problems. • CIPFA have noted that a LIT would not fulfil the criteria of a sustainable tax: the working age population is expected to decline in the medium / long term and there would potentially be less incentive to maximise efficient use of land and property. • To maintain taxation on second homes would require either voluntary information from owners or continuation of property registers.

Criteria / Principle	Existing council tax benefits	Existing council tax concerns	Potential reform and related impact of nationally set LIT
Predictability	• Tax base is relatively stable year on year and the tax yield can be predicted reasonably accurately • Retains an element of buoyancy (at least over the medium and longer term) • Cash flows can be managed relatively easily • Enables Glasgow to be subsidised through central government or DWP funding to reflect socio-economic factors • Projections indicate a 11% increase in taxable domestic properties by 2016	• Glasgow's unique socio-economic situation means collecting council tax is challenging	• LIT would avoid the collection problems that Glasgow currently faces in relation to poorer households. However, the current difficulty of taxing a relatively transient population would continue to be a problem in collecting a LIT, whichever organisation was responsible for collection. Collection of water charges from poorer households would also continue to pose a problem. • LIT would be relatively buoyant but, in turn, may prove unpredictable in terms of yield and cash flow. The Scottish Government has confirmed that local authorities would have the same overall level of funding made available under the LIT and this would therefore only be an issue for central government to address. • The issue of DWP / central government subsidy for council tax benefit is one for the Scottish and UK Governments to resolve. • There is a risk that relative revenues from a LIT decline compared to any property based tax on the assumption that the working age population continues to decline, whilst numbers of taxable domestic properties increase.
Local democratic accountability	• Relatively transparent enabling the electorate to hold members to account • Clearly identifiable as a local tax	• The 'gearing' effect and the water charge issue impacts on the true level of local accountability • There is a need for additional flexibility in relation to the system of business taxation.	• Local democratic accountability could be retained through robust performance measurement. However, a LIT is inconsistent with concept of decentralised fiscal policy and many commentators believe fiscal accountability is key to local democratic accountability. CIPFA have compared the proposed arrangements to the NHS whereby local government is financially accountable to the Scottish Government, rather than a local taxpayer. • A nationally set LIT is not identifiable as a local tax and would, in practice, result in near 100% of local government expenditure being funded by central government.

Criteria / Principle	Existing council tax benefits	Existing council tax concerns	Potential reform and related impact of nationally set LIT
			• As noted above, LIT reform in isolation would not address water charging issues and the lack of accountability within water charging.

Source: Local taxation working group 'Existing council tax arrangements' paper, section 4

Appendix 2c: Appraisal of existing council tax benefits and concerns against locally set LIT

Appendix 2c provides an overview of the benefits and concerns previously identified with the existing council tax regime, according to the agreed set of criteria and principles, and suggests how a locally set LIT could impact these issues. It should be noted that, in most cases, the potential impact of such reform is similar to that achieved by a nationally set LIT, with the exception of the local accountability and administration / cost of collection issues.

Impact of locally set LIT on existing benefits and concerns associated with the council tax

Criteria / Principle	Existing council tax benefits	Existing council tax concerns	Potential reform and related impact of locally set LIT
Fairness	• Visible and transparent • Benefits system provides a certain element of means-testing • Property is one indicator of wealth and much of the country's wealth is stored in property • Discounts and exemptions adjust for income-earning capacity of household • Income tax already contributes significantly to local government finance • Difficult to evade payment	• Does not always reflect the ability to pay and is not progressive • Current valuations often bear little resemblance to current values • Banding system effectively caps the maximum any household will pay • Households on full council tax benefit are still required to pay a water charge and often struggle to do so • Property-wealth does not necessarily reflect ability to pay an annual cash levy	• LIT would be proportionate to income and therefore ensure that an individual's tax liability corresponds to ability to pay, insofar as earned income corresponds to ability to pay. • No requirement for property valuation or banding, removing requirement for regular revaluations and capping through bands. • Crucially, LIT would not address the significant issues that exist in relation to water charging. Many households would continue to struggle to pay their water charge liability. Any LIT would therefore have to be legislated for in conjunction with water charging reform. Reference should be made to the *Reformed council tax* paper (4 November 2008) for water charge issues and options for reform. • There would also be scope for tax avoidance and a significant element of personal and national wealth would no longer be subject to taxation, with subsequent adverse behavioural impacts.
Efficiency	• Systems and controls in place to effectively administer tax and benefits • Relatively high collection rates and low cost of collection • Currently yield is adequate to support required revenue	• Eligible households do not always apply for benefit, exemptions or discounts • Tax payers with more than £16,000 in savings are excluded from benefit • Existing arrangements whereby local authorities collect water charges on	• No requirement for benefits / rebates system and therefore avoids issue of poor take-up. However, there may still be requirement for water rebating system and housing benefit administration would have to continue. There may also be requirements to monitor student status of individuals should they be exempt from LIT.

Criteria / Principle	Existing council tax benefits	Existing council tax concerns	Potential reform and related impact of locally set LIT
	• Few adverse behavioural effects and encourages property owners to make economic use of their assets	behalf of Scottish Water are not satisfactory (see 4.10 in previous report) • NNDR valuations are not consistently applied and the system of reliefs and exemptions often has adverse impacts.	• LIT is naturally means-tested, relating to earned income. However, as noted above, there is scope for avoidance and other forms of wealth will not be taxed. • Any failure to supplement LIT legislation with water reform would mean the existing significant concerns relating to administration and collection of water charges would remain. • LIT could have a significant impact on employers in terms of administration and collection. This would be magnified by a locally set LIT whereby employers and collecting agencies would have to keep up to date information on the exact place of residence of all employees. In turn, this could affect businesses' decisions to locate in Scotland. There is also a risk that a LIT would result in disincentive to work in Scotland. • The systems and controls in place to administer, collect and monitor a LIT are not in place and would require significant change management and investment by employers, local and central government, and HMRC. There are therefore a number of operational and strategic risks associated with such a significant shift. • LIT would be a tax on individuals. The only prior experience of local taxation on individuals (the Community Charge) resulted in significant collection problems. • CIPFA have noted that a LIT would not fulfil the criteria of a sustainable tax: the working age population is expected to decline in the medium / long term and there would potentially be less incentive to maximise efficient use of land and property. • To maintain taxation on second homes would require either voluntary information from owners or continuation of

Criteria / Principle	Existing council tax benefits	Existing council tax concerns	Potential reform and related impact of locally set LIT
			property registers.
Predictability	• Tax base is relatively stable year on year and the tax yield can be predicted reasonably accurately • Retains an element of buoyancy (at least over the medium and longer term) • Cash flows can be managed relatively easily • Enables Glasgow to be subsidised through central government or DWP funding to reflect socio-economic factors • Projections indicate a 11% increase in taxable domestic properties by 2016	• Glasgow's unique socio-economic situation means collecting council tax is challenging	• LIT would avoid the collection problems that Glasgow currently faces in relation to poorer households. However, the current difficulty of taxing a relatively transient population would continue to be a problem in collecting a LIT. A locally set LIT could exaggerate this issue for populations that frequently move between local authority areas. • LIT would be relatively buoyant but, in turn, may prove unpredictable in terms of yield and cash flow. The Scottish Government has confirmed that local authorities would have the same overall level of funding made available under the LIT and this would therefore only be an issue for central government to address. • The issue of DWP / central government subsidy for council tax benefit is one for the Scottish and UK Governments to resolve. • There is a risk that relative revenues from a LIT decline compared to any property based tax on the assumption that the working age population continues to decline, whilst numbers of taxable domestic properties increase.
Local democratic accountability	• Relatively transparent enabling the electorate to hold members to account • Clearly identifiable as a local tax	• The 'gearing' effect and the water charge issue impacts on the true level of local accountability • There is a need for additional flexibility in relation to the system of business taxation.	• A locally set LIT would maintain local democratic accountability, one of the main advantages over a nationally set LIT. It would also clearly be a 'local' tax and therefore avoid potential legal challenges. • As noted above, LIT reform in isolation would not address water charging issues and the lack of accountability within water charging.

Source: Local taxation working group 'Existing council tax arrangements' paper, section 4

Appendix 2d: Appraisal of existing council tax benefits and concerns against local property tax

Appendix 2d provides an overview of the benefits and concerns previously identified with the existing council tax regime, according to the agreed set of criteria and principles, and suggests how a LPT could impact these issues.

Impact of LPT on existing benefits and concerns associated with the council tax

Criteria / Principle	Existing council tax benefits	Existing council tax concerns	Potential reform and related impact of LPT
Fairness	• Visible and transparent. • Benefits system provides a certain element of means-testing. • Property is one indicator of wealth and much of the country's wealth is stored in property. • Discounts and exemptions adjust for income-earning capacity of household. • Income tax already contributes significantly to local government finance. • Difficult to evade payment.	• Does not always reflect the ability to pay and is not progressive. • Current valuations often bear little resemblance to current values. • Banding system effectively caps the maximum any household will pay. • Households on full council tax benefit are still required to pay a water charge and often struggle to do so. • Property-wealth does not necessarily reflect ability to pay an annual cash levy.	• LPT would likely be more progressive, with greater incidence falling on owners of higher valued property. No requirement for banding system. • Once implemented, system of regular revaluations would be relatively straightforward. However, potential for additional work for local authorities to reflect changes in revenues arising from revaluations in annual revenue budgets. • Crucially, would not address the significant issues that exist in relation to water charging without parallel reform. • Likely would still require a rebate / benefits system to assist those on low incomes.
Efficiency	• Systems and controls in place to effectively administer tax and benefits. • Relatively high collection rates and low cost of collection. • Currently yield is adequate to support required revenue. • Few adverse behavioural effects and encourages property owners to make economic use of their assets.	• Eligible households do not always apply for benefit, exemptions or discounts. • Tax payers with more than £16,000 in savings are excluded from benefit. • Existing arrangements whereby local authorities collect water charges on behalf of Scottish Water are not satisfactory (see 4.10 in previous report). • NNDR valuations are not consistently applied and the system of reliefs and	• As noted above, potential requirement for rebate / benefits system, which would need to be designed to ensure adequate take-up. See 'Reformed council tax' report (LTWG 4 November 2008 Item 3) for options to improve benefit take up. • In order to resolve water charging issues, would require parallel water charge reform to be introduced alongside CV tax. • Burt recommends continuation of NDR arrangements. Potential for parallel reform to enhance local authority discretion. • The systems and controls to administer, collect and monitor a LPT are largely in place and would require minimal reform. • Would largely fulfil the criteria of a sustainable tax: the tax

Criteria / Principle	Existing council tax benefits	Existing council tax concerns	Potential reform and related impact of LPT
		exemptions often has adverse impacts.	base is relatively constant and LPT encourages the best use of available resources. • Relatively easy to collect and therefore collection and cost of collection rates would likely remain favourable.
Predictability	• Tax base is relatively stable year on year and the tax yield can be predicted reasonably accurately. • Retains an element of buoyancy (at least over the medium and longer term). • Cash flows can be managed relatively easily. • Enables Glasgow to be subsidised through central government or DWP funding to reflect socio-economic factors. • Projections indicate an 11% increase in taxable domestic properties by 2016.	• Glasgow's unique socio-economic situation means collecting council tax is challenging.	• Potential for continued difficulty in collecting LPT from very poor households. • Would be relatively buoyant whilst retaining a certain degree of predictability and stability.
Local democratic accountability	• Relatively transparent enabling the electorate to hold members to account. • Clearly identifiable as a local tax.	• The 'gearing' effect and the water charge issue impacts on the true level of local accountability. • There is a need for additional flexibility in relation to the system of business taxation.	• A locally set LPT would ensure continued element of local democratic accountability. However, the absence of additional local tax raising powers would see a continuation of the existing gearing issue. • As noted above, LPT reform in isolation would not address water charging issues and the lack of accountability within water charging.

Source: Local taxation working group 'Existing council tax arrangements' paper, section 4

Appendix 2e: Appraisal of existing council tax benefits and concerns against land value tax

Appendix 2e provides an overview of the benefits and concerns previously identified with the existing council tax regime, according to the agreed set of criteria and principles, and suggests how LVT could impact these issues.

Impact of LVT on existing benefits and concerns associated with the council tax

Criteria / Principle	Existing council tax benefits	Existing council tax concerns	Potential reform and related impact of LVT
Fairness	• Visible and transparent. • Benefits system provides a certain element of means-testing. • Property is one indicator of wealth and much of the country's wealth is stored in property. • Discounts and exemptions adjust for income-earning capacity of household. • Income tax already contributes significantly to local government finance. • Difficult to evade payment.	• Does not always reflect the ability to pay and is not progressive. • Current valuations often bear little resemblance to current values. • Banding system effectively caps the maximum any household will pay. • Households on full council tax benefit are still required to pay a water charge and often struggle to do so. • Property-wealth does not necessarily reflect ability to pay an annual cash levy.	• LVT would likely be more progressive, with greater incidence falling on owners of higher valued land. No requirement for banding system. • Once implemented, system of regular revaluations would be relatively straightforward. However, potential for additional work for local authorities to reflect changes in LVT revenues arising from revaluations in annual revenue budgets. • Crucially, LVT would not address the significant issues that exist in relation to water charging without parallel reform or including funding of water services in any LVT. • Likely would still require a LVT rebate / benefits system to assist those on low incomes. However, LVT would likely reduce burden on owners of low value land and there would likely be fewer low-income land owners compared to low-income property residents.
Efficiency	• Systems and controls in place to effectively administer tax and benefits. • Relatively high collection rates and low cost of collection. • Currently yield is adequate to support required revenue. • Few adverse behavioural effects and encourages property owners to make economic use of their assets.	• Eligible households do not always apply for benefit, exemptions or discounts. • Tax payers with more than £16,000 in savings are excluded from benefit. • Existing arrangements whereby local authorities collect water charges on behalf of Scottish Water are not satisfactory (see 4.10 in previous report).	• As noted above, potential requirement for LVT rebate / benefits system, which would need to be designed to ensure adequate take-up. See 'Reformed council tax' report (LTWG 4 November 2008 Item 3) for options to improve benefit take up. • In order to resolve water charging issues, would require water to be funded by any LVT, or for parallel water charge reform to be introduced alongside LVT. • There is potential to include NDR in a LVT system, thus addressing many of the existing anomalies (see 'Existing council tax' report, LTWG 4 November 2008 Item 2). However,

Criteria / Principle	Existing council tax benefits	Existing council tax concerns	Potential reform and related impact of LVT
		• NNDR valuations are not consistently applied and the system of reliefs and exemptions often has adverse impacts.	this could potentially have a significant impact on local businesses and their tax liability. Consideration also needs to be given as to the treatment of agricultural land. • The systems and controls to administer, collect and monitor LVT are largely in place (in the form of existing council tax, benefits and NNDR systems) and would require minimal reform. • LVT would largely fulfil the criteria of a sustainable tax: the tax base is entirely constant and LVT encourages the best use of available land. • Relatively easy to collect, with the exception of some small strips of land where ownership may be difficult to identify. LVT would be almost impossible to avoid whilst maintaining receipt of benefits from the land, and therefore collection and cost of collection rates would likely remain favourable. • Taxation of 2^{nd} homes would be straightforward, with no adjustments required according to residency or other land ownership.
Predictability	• Tax base is relatively stable year on year and the tax yield can be predicted reasonably accurately. • Retains an element of buoyancy (at least over the medium and longer term). • Cash flows can be managed relatively easily. • Enables Glasgow to be subsidised through central government or DWP funding to reflect socio-economic	• Glasgow's unique socio-economic situation means collecting council tax is challenging.	• Potential for continued difficulty in collecting LVT from very poor households although incidents of land owners with such low incomes would be less than the current incidence of home-dwellers with low incomes. • LVT would be relatively buoyant whilst retaining a certain degree of predictability and stability. LVT could also help smooth market fluctuations, in turn further enhancing predictability and stability. • The issue of DWP / central government subsidy for council tax benefit and the possible translation of this into LVT rebates would have to be carefully considered.

Criteria / Principle	Existing council tax benefits	Existing council tax concerns	Potential reform and related impact of LVT
	factors. • Projections indicate an 11% increase in taxable domestic properties by 2016.		
Local democratic accountability	• Relatively transparent enabling the electorate to hold members to account. • Clearly identifiable as a local tax.	• The 'gearing' effect and the water charge issue impacts on the true level of local accountability. • There is a need for additional flexibility in relation to the system of business taxation.	• A nationally set LVT is not identifiable as a local tax and would, in practice, result in near 100% of local government expenditure being funded by central government. As such, local democratic accountability would be impinged and various legal obstacles would have to be overcome. • A locally set LVT would avoid these issues but would likely require central government equalisation. In turn, this could lead to a continuation of the existing gearing issue and potentially skew anticipated macro-economic benefits of a LVT. • LVT itself is arguably more closely related to local services. That is, LVT would automatically reflect levels of public investment, thus ensuring that local beneficiaries would essentially fund such investment. • Should the Council introduce a pilot LVT scheme to sit alongside existing tax systems, then this could be said to enhance existing local democratic accountability. • As noted above, LVT reform in isolation would not address water charging issues and the lack of accountability within water charging.

Source: Local taxation working group 'Existing council tax arrangements' paper, section 4

Appendix 3: Glasgow City Council pilot study on local property tax & land value tax

This appendix provides extracts from the detailed findings of the pilot study into LPT, LVT and a hybrid LPT/LVT tax in Ward 18.

LPT facts & figures - Ward 18	
Council tax gross revenue	£14.754m
Total residential capital value	£1,396m
'Rate poundage' for revenue-neutral LPT - residential	1.1p
Old tenement flat (band A)	
Capital value	£66,720
CTX charge	£809
LPT charge	£705
Modern flat (band B)	
Capital value	£90,850
CTX charge	£943
LPT charge	£960
'Four in a block' (band B)	
Capital value	£65,100
CTX charge	£943
LPT charge	£688
Modern semi-detached house (band D)	
Capital value	£121,000
CTX charge	£1,213
LPT charge	£1,279
Pre-1914 semi-detached (band E)	
Capital value	£331,540
CTX charge	£1,483
LPT charge	£3,504

LVT facts & figures - Ward 18	
Council tax gross revenue	£14.754m
Total residential land value	£397m
'Rate poundage' for revenue-neutral LVT	3.7p
Old tenement flat (band A)	
Land value	£9,720
CTX charge	£809
LVT charge	£361
Modern flat (band B)	
Land value	£37,000
CTX charge	£943
LVT charge	£1,375
'Four in a block' (band B)[14]	
Land value	£16,120
CTX charge	£943
LVT charge	£599
Modern semi-detached house (band D)	
Land value	£51,660
CTX charge	£1,213
LVT charge	£1,920
Pre-1914 semi-detached (band E)	
Land value	£78,560
CTX charge	£1,483
LVT charge	£2,920

[14] Using a residential 'flatted' land value rate (£355 per square meter). If using semi-detached rate of £160 psm then LVT is £1,330.

Hybrid LPT / LVT facts & figures - Ward 18	
Old tenement flat (band A)	
Capital value	£66,720
CTX charge	£809
Hybrid charge	£707 (£101 land, £606 property)
Modern flat (band B)	
Capital value	£90,850
CTX charge	£943
Hybrid charge	£958 (£383 land, £575 property)
‘Four in a block’ (band B)	
Capital value	£65,100
CTX charge	£943
Hybrid charge	£688 (£168 land, £521 property)
Modern semi-detached house (band D)	
Capital value	£121,000
CTX charge	£1,213
Hybrid charge	£1,275 (£538 land, £737 property)
Pre-1914 semi-detached (band E)	
Capital value	£331,540
CTX charge	£1,483
Hybrid charge	£3,507 (£818 land, £2,689 property)

LVT facts & figures - Ward 18 Industrial property	
NDR gross revenue	£3.023m
Total land value	£8.4m
'Rate poundage' for revenue-neutral LVT	36p
1949 Terraced Unit on industrial estate	
Land value	£25,042
NDR charge	£9,297
LVT charge	£9,012
1960 warehouse non-estate	
Land value	£41,285
NDR charge	£17,862
LVT charge	£14,859
1975 store non-estate	
Land value	£28,534
NDR charge	£8,610
LVT charge	£10,269
1979 warehouse industrial area	
Land value	£14,660
NDR charge	£5,725
LVT charge	£5,219

LVT facts & figures - Ward 18 Retail property	
NDR gross revenue	£0.650m
Total land value	£2.9m
'Rate poundage' for revenue-neutral LVT	22p
Parade shop Land value NDR charge LVT charge	 £18,742 £4,122 £4,142
Tenement shop Land value NDR charge LVT charge	 £18,346 £4,809 £4,054
Stand alone shop Land value NDR charge LVT charge	 £15,566 £2,771 £3,440
1979 warehouse industrial area Land value NDR charge LVT charge	 £14,660 £5,725 £5,219

LVT facts & figures - Ward 18 vacant land	
Low rise housing land value (land use according to city plan) Land value LVT charge	 £5.6m £208,152
Land for flats land value (land use according to city plan) Land value LVT charge	 £12.425m £461,387
Total possible LVT revenue on Ward 18 derelict & vacant land	£669,539

No derelict or vacant land is currently subject to local taxation.

Appendix 4: Local Taxation Working Group membership & representation

The working group included representation from across the Council's political groups, as detailed in the table below.

Political group	Council member
Labour	• Bailie J McFadden (chair) • Bailie J McNally • Councillor S Curran • Councillor J Findlay
SNP	• Councillor A Dingwall • Councillor K Malik
Scottish Green Party	• Councillor S Clay
Scottish Liberal Democrats	• Councillor K Elder

Councillor D Meikle (Conservative) was also invited to give a presentation to the working group on 5 March 2009.

A Land Value Tax for London? Response

Professor Pete Wyatt, 5 October 2015

The general theoretical case for a 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.

I suppose the first question to ask is why would the GLA wish to levy a land value tax. There are three commonly cited reasons for introducing a land value tax: to raise revenue, to redistribute wealth and to assist land use planning. Obviously these reasons are not mutually exclusive, but what is the main purpose? It would seem from the background paper that it is land use planning - to bring forward more land for residential development. If this is the case, then is a land value tax the 'best' way of doing so? Has the GLA considered other ways of bringing land forward? A derelict land tax, grants and other incentives to release such land, changes to business rates relief on empty sites, etc? It might be useful to consider these alternatives alongside a LVT in order to identify the most effective way of meeting the land supply objective.

If a LVT is considered to be the best way of bringing land forward for residential development, then there are some practical hurdles to overcome:

(a) Creating and maintaining a register of land ownership. Does the Land Registry have an up to date register of site-level land ownership for the London area at a level of detail that can be used to levy and land ownership tax? If it does, will it release / is it allowed to release this information for LVT purposes? Presumably a significant proportion of land in London is owned by offshore companies and individuals. How would these owners be identified and how would the tax be levied and collected?

(b) Creating and maintaining a database of site-by-site land use. This requires site-level forward planning. Each site must have its existing use and its 'optimum' use assigned. A land use survey would identify existing land use but if the purpose of the LVT is to encourage land in non-residential use to come forward for residential use then an alternative (optimum?) use must be identified too. As you mention in the background paper, the 2013 SHLAA doesn't identify specific sites because doing so would "compromise wider planning objectives." Whatever these objective are, they would be seriously comprised by a land use database that allocated each and every site in London to its 'optimum' use!

(c) If 'optimum' is defined in terms of value then regular revaluations of the tax base will be required. 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. 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 and the sensitively of the output to those inputs. Add to this the problem of allocating hope value between the land and improvement components of real property value and the task becomes difficult and contestable, which leads to (d).

(d) Establishing and running an appeals process. Past experience of land and development taxes have shown this to be a significant cost. This is partly because of the issues discussed in (c). Since land valuations are, to a large extent, hypothetical and require expert input, they are contested; the difficulties faced by policy-makers in trying to pin down development 'viability' in the context of affordable housing targets, s106 planning obligations and CIL illustrates this.

I would be happy to talk through these points if you think it might help your decision-making process.

With regards,

Pete Wyatt.

[redacted]

[redacted]

RETHINKING PROPERTY TAX: RAISING REVENUE FROM COMMUNITY VALUES

JOSHUA VINCENT, CENTER FOR THE STUDY OF ECONOMICS

Urban areas and other municipalities the world over are rightly considered the engines of society, culture, and the economy. Towns and cities serve as hubs for commerce, public services, and amenities (universities and hospitals), and other human capital intensive activities. Without them, our human world would be nearly entropic. The requirement for these conurbations to exist depends primarily on one thing: money. That money arrives from taxes and fees. Determining the best form and level of tax is a tricky political and economic endeavor that - at times in history - has been raised to the level of blood sport.

I. THE POLITICS

California's Proposition 13 in the early 1980s resulted from a taxpayers' 'revolt' that essentially froze the main source of municipal revenues: the property tax. The generally acknowledged outcome was a quick decline of local schools, services, and infrastructure. We've seen these 'revolts' elsewhere. How is it that the act of taxation can generate such heat?

II. THE ECONOMICS

When cities are given local taxing powers, they usually resort to forms of tax such as the traditional property tax or other levies on work, investment, or commerce: wage, sales, or business taxes. Each of these options has its strengths and weaknesses. The greatest weakness common to all is that a policy goal other than raising money is secondary, if thought of at all (the cigarette tax meant to reduce smoking for example).

III. WHAT WE TAX MATTERS

> "The property tax is, economically speaking, a combination of one of the worst taxes— the part that is assessed on real estate improvements . . . and one of the best taxes— the tax on land or site value." - *William Vickrey (1999) Nobelist in Economics*

If cities wish to create an environment of shared prosperity and stable revenue flow, municipal tax systems in an age of ever-increasing labor and capital mobility must themselves become modernized. A municipal wage tax matters little if wage earners move to avoid it. A municipal sales tax falls prey to the 'border hopping' effect. A municipal business tax becomes a burden to commerce. A property tax, as Professor Vickrey tells us, can be problematic, but it doesn't have to be.

IV. THE OLD AND THE NEW: LAND VALUE TAXATION (LVT)

What is LVT? LVT is an alternative version of the real property tax, used in 20 cities, school districts, and counties in the United States (mostly in Pennsylvania and Hawaii), as well as in most municipalities and states in Australia, Denmark, and New Zealand. LVT addresses the corrosive effect of the traditional property tax. In the US and Canada, property tax rates generally fall equally upon land values and building values. LVT shifts the greater share of property tax rate from buildings (both a product of private capital and private labor) to the assessed value of land (a public good created by public and community investment). The property tax then becomes a policy with a purpose.

As most municipal officials know, citizens in business realize that the current property tax punishes good behavior (reversing the intent of the cigarette tax mentioned earlier). When one improves a structure, the tax bill goes up. The more investment and work one puts into a building, the greater the tax liability. The underlying message is "If you improve your property and your community, we will make you pay." For example, the City of Allentown Pennsylvania has dual tax rates of 5.038% on land values and 1.072% on building values. The land mill rate is nearly 5 times greater than the building rate. Under a standard tax, Allentown would have a single rate of 1.752%, collecting the same revenue.

Why does this matter? Without LVT, nearly 80% of Allentown's property tax revenue would come from what it needs most: continual injections of capital into building construction and maintenance. To perform these tasks, jobs must be created, and eventually homeowners and tenants come into the city, as the city subsequently becomes more competitive in attracting private capital and people.

Without LVT, 20% of Allentown's property tax revenue would come from land values. The value created by government investment and the desire of the market to take advantage of that investment (roads, sewers, police protection, fire protection, and schools), would sit fallow or be pocketed by speculative rather than productive investors. As it stands, Allentown now collects 50% of revenue from land. As a result, tax reduction for most homeowners and built to highest and best use commercial parcels has been significant.

V. LVT IN PRACTICE

LVT as practiced in Pennsylvania and elsewhere addresses several known flaws in the property tax. Taxing land value removes incentives that reward private land banking as a viable business model. As a commodity in finite supply, municipalities must get the most "bang for their buck" from land that is liable to taxation. A municipality or regional government would be hard-pressed to justify putting in infrastructure, a great public expense, and letting taxable land sit fallow sometimes for decades until it ‘ripens.’

Taxing land value provides permanent incentives for growth and reinvestment that go beyond temporary and targeted tax incentives. Most municipalities and their parent government have put in place abatement and subsidy programs to assist in spurring new development. This of course begs the question: “Why are we abating new construction?” The depressing answer is of course to get out from under a bad tax system that makes investment difficult, especially in at-risk communities.

Taxing land value ensures that the value created by the community is recaptured by the community in the form of taxation. It is often said government creates nothing of value. Untrue. Government day in and day out creates land value through infrastructure, services, and other amenities. Land values if collected by a municipality create a self-looping revenue mechanism that can fund every day services and provide a financing base for future capital improvements. Nobelist Joseph Stiglitz noted this theoretically with his famous ‘Henry George Theorem.’ He argued that land values or ‘economic rents’ are more than sufficient to pay for the maintenance of a healthy municipality or indeed a healthy transportation project.

Taxing land value can serve as a partial or full replacement of other taxes known to be economically corrosive (i.e. sales, business, or income tax). To best serve municipalities in competition with other areas, lowering the tax burden on work and commerce can nudge the city towards the notion of a citywide enterprise zone; a *‘region unique’* served by an *‘impot unique.’*

VI. THE LVT EXPERIENCE

The conscious taxation of land values began in earnest in the late 1800s and early 1900s during the ferment of the industrial era and the rise of the progressive movement. Communities as diverse as Pittsburgh, Vancouver, Copenhagen, and Canberra all enacted land value tax in one form or another.

Canada

The Canadian West abandoned its LVT system fairly early on; the rates were low and could not prevent speculation in the burgeoning port and railroad towns. However, valuations of real estate in British Columbia carefully differentiate between land and building values. Good assessments can lead to LVT in all but name. A 2014 study of the Town of Smithers in British Columbia performed by the Center for the Study of Economics, confirmed that the values were sound, but also that imposition of LVT would have the desired effect of putting pressure on vacant or underused land around the highways and railroad stops.

Pittsburgh

Pittsburgh introduced LVT in 1911. From 1913 to about 1945, it was the primary source of revenue for city purposes. After the war, the popularity of local taxes grew as the concept of the "three-legged school" for tax policy came into favor. Dilution of LVT caused by the ascendance of sales, wage, and business taxes lessened the notable effect. After the steel crash of the late 1970s, Pittsburgh again turned to LVT and expanded the ratio of land tax to building tax to about 8 to 1. That 1979 expansion resulted in one of the few reliable metrics for judging successive LVT: taxable building permits. Studies by the Center, a team from the University of Maryland and others confirmed that while the rest of the rustbelt sank quickly from economic relevance, Pittsburgh not only stabilized but rebounded.

Sadly, politics and property valuation mixed in 2001. A botched revaluation led to piecemeal land valuations; without consistency from one parcel to another the city suspended LVT. It is cold comfort, but Pittsburgh's fiscal situation remains precarious, and most growth is now subsidized or not taxable (the growth of NGOs such as universities and hospitals).

Canberra

One of the most successful modern planned cities in the world was the new capital of Australia, Canberra. Designed by Walter Burley Griffin, it was agreed that the funding mechanism upon which the city was overlaid would be based upon site values only. Again, this experiment was diluted over the years. Happily the current Australian Capital Territory's government has seen fit to return to an emphasis on site values for funding the city operations as well as the expansion of light rail to its outlying neighborhoods.

Pennsylvania

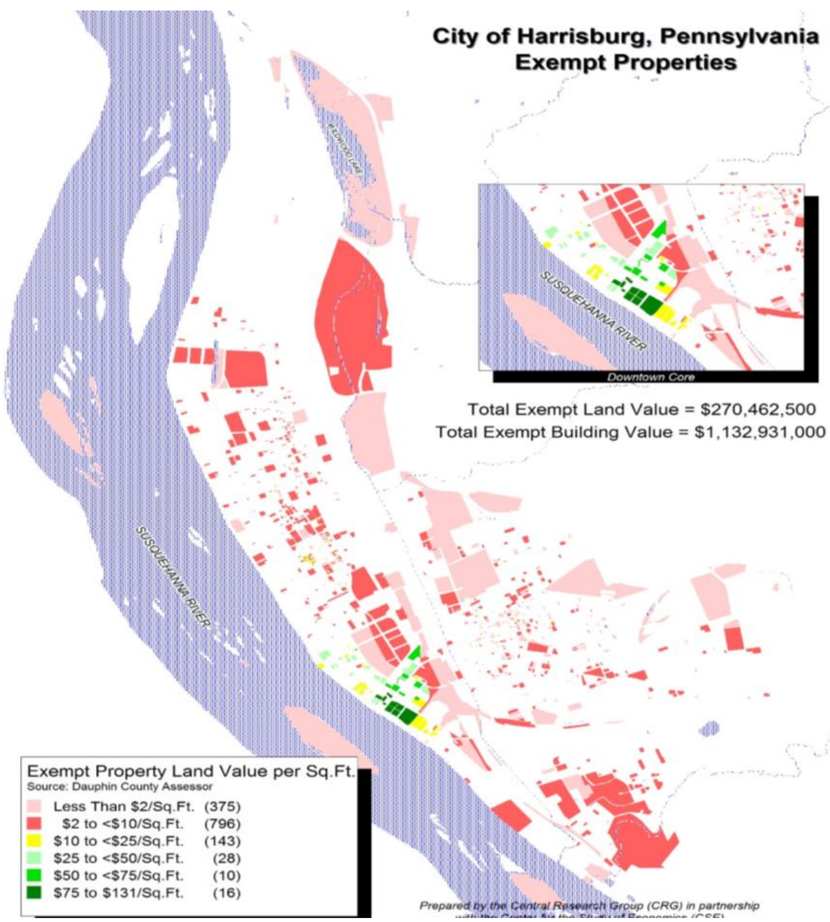
Outside of Pittsburgh, the progress of LVT has been fairly steady since legislative permission was granted to other Pennsylvania cities in the 1950s. Currently, the City of Altoona, a formally prosperous railroad center, which economically and geographically is in relative isolation, enacted LVT in 2001. With the gradual and year shift away from building taxes, Altoona became the first city in the United States to abandon its tax on buildings altogether.

This shift has been blunted somewhat by the fact that the school district (a separate taxing entity) cannot currently enact LVT. Yet, the number of vacant lots has dropped, property tax revenue has been stabilized, and the vast majority of retired or working homeowners have seen substantial tax decreases.

The City of Harrisburg enacted LVT in 1975, as a policy tool to discourage land speculation and to help the city recover from the ravages of a disastrous flood resulting from Hurricane Agnes. In that time, the ‘rate spread’ of land tax to building tax has expanded to a ratio of 6 to 1. Former and current municipal leaders credit LVT with creating an environment for investment and reinvestment in very old housing and commercial stock. Building permit issuance increased during each expansion of the land rate.

As US mayor of the year 2006 Stephen Reed 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."

Burdened with nonrelated bond obligations that have the city flirting with bankruptcy, Harrisburg has maintained its LVT for several good reasons: the downtown has been rebuilt and homeowners pay modest property taxes all in the face of Harrisburg’s position as the seat of Pennsylvania State government. So much land is tax-exempt, the LVT policy serves to compel or incentivize use of what land is left for private use.

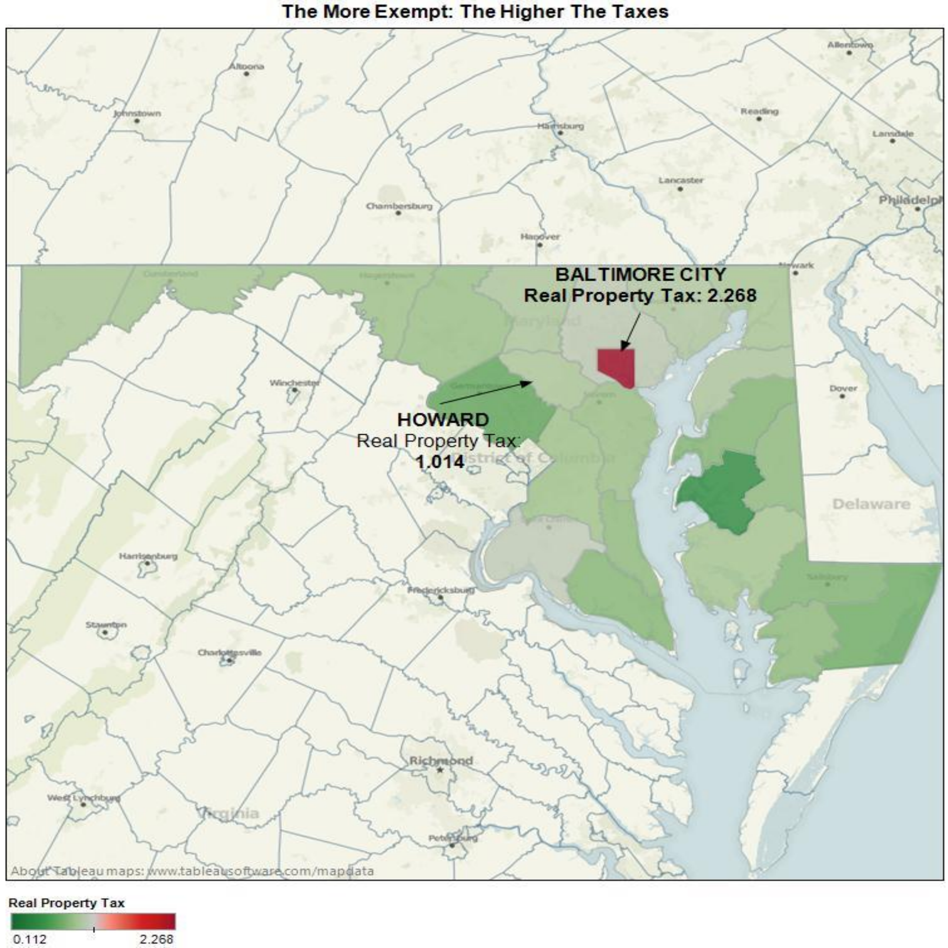


VII. LVT MECHANICS

Currently, LVT efforts are moving out of Pennsylvania and into other stressed communities in the US. In the City of Hartford Connecticut, which is one of the poorest cities in the United States and suffering under the burden of the highest tax rate in the state, the only development that takes place is heavily subsidized or is not taxable. Like Harrisburg, Hartford is the state capital with a tremendous amount of land that does not contribute to municipal coffers. The downtown in particular suffers from 50 years of depopulation and disinvestment. Using a particularly valuable vacant parcel (which until 1999 was the site of a large luxury hotel), creates a basic illustration of how LVT works in revenue terms and how it works conceptually. The lot itself is currently assessed at US $2.5 million.

Even with such a high valuation, the current tax liability for this parcel is $193,000 a year, at a current (non-effective) tax rate of 7.429%. If the builder were to replace similar building on that site, and did not have a tax subsidy, the tax bill would rise to approximately $4.5 million a year. Yet, if LVT were implemented the vacant lot would still pay $1.01 million a year. Many municipal officials would agree that that's a fair price to pay for keeping such a valuable property out of use (ironically, the surface parking lot can often pay its property tax bill in less than 30 calendar days, the rest is profit). Were Hartford to enact

The More Exempt: The Higher The Taxes



full LVT (after a gradual phase-in) and the builder went ahead with the project, the annual property tax bill would still be $1.01 million annually. The tax difference between the non-LVT and LVT system is clear and fiscally significant. LVT appears to provide an environment for free markets to return to the city.

VIII. THE FUTURE OF LVT

Although the theory of LVT is generally regarded as unimpeachable by economists, in the real world changing tax systems is often 'a long march.' Various states in the US such as Maryland, New York, Pennsylvania and some others do permit LVT. Yet the influence of those who own valuable downtown underused land cannot be discounted. Municipalities understand that tax competition is crucial to their success (see map comparing the City of Baltimore property tax rate to surrounding jurisdictions to see why). But municipalities of all sizes are at a Rubicon. National and subnational aid is withering. 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. The attention paid to LVT is the result of decades of bad decisions, faddish economic development theories, and above all, inertia. 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.

JOSHUA VINCENT is CEO of the Center for the Study of Economics, designing innovative systems of land value taxation (LVT) for Smart Growth and Urban Redevelopment strategies. Recognized for leadership in LVT study, Joshua wrote 50 LVT impact studies in the past 10 years. He was instrumental in helping Allentown, PA create Home Rule that introduced LVT, working with local leaders and voters in 1996; in 2006 he implemented LVT for Clairton, PA, leading to tax reduction for built parcels and encouraged turnover of abandoned ones. In 2011, his LVT plan for Altoona eliminated taxing buildings, a first in the USA.

Land Value Tax

Joshua Vincent, 7 October 2015

Thank you so much for your email of yesterday. As I wrote, earlier, the role of The Centre for the Study of Economics (CSE) has been to advise, educate and assist with implementation and administration of land value tax (LVT) at the local level in the US. Naturally, we have worked mostly in Pennsylvania, and have also worked to successfully pass legislation in several states in the US. We have also done work with several communities in Canada. Canada and the USA have relatively powerful states/provinces. Therefore legislation generates at the state level and is passed down to municipalities.

Since our establishment in 1926, and becoming a registered charitable/educational NGO in 1980, I believe that we may best serve the London Assembly by approaching LVT from several avenues: our past experience and expectation of future arguments against LVT in London.

The decades of work we have had with local government and state level authorizing bodies has been to use experience from the past and current research to answer reasonable concerns about LVT. Considering that the Greater London Authority and the Assembly will be dealing with a transitional system and timeframe from existing taxation to a new form of taxation, I believe that our work in helping cities large and small transition to LVT may be of use.

We have actually used a fairly substantial publication in the past that responds to the most generally heard objections to land value taxation; our FAQ if you will.

There is an existing loose policy confederation worldwide which serves the various LVT communities in the USA, Canada Australia etc.

Although our US tax structure has generally strong boundaries between national, state, and local levels we find that our tax systems are generally analogous to Canada and Australia; i.e. our discussions and work translate well.

I acknowledge that the UK is different, and that the London LVT would be a significant departure from the current practice of banding and business rates. At the same time, we do know that the data exists, and that land registry is a reality in the GLA. That is a significant advantage over the paucity of land registration throughout the UK and rather more vagueness on land and building values. In the end, London will likely have a system that closely resembles Northern Ireland which uses capital rating.

The Questions Contained in the Scope

1. Local tax and non-Dom rates have become more positive over the decades, with various reforms especially reducing the non-Dom rates on unoccupied properties (2008). Like the US property tax system, tax bills are based on valuations which are often out of date, or vague. Banding is a positive feature in that it permits the GLA wide latitude and ease in deploying the tax.

The negative aspect is that many homeowners would say they are overvalued relative to the bands. In the US, many states have the same feature of "fogginess" which makes it difficult for the citizen to know if the tax is fair. However, in some states such as Maryland, property (both residential and business) is valued by the state triennially, with the basis of capital value, and a requirement of separate land and building values. The use of market information in the US for real property valuation purposes is widespread, as well as using government offices to conduct CAMA on a continual basis.

Stamp duty (generally known in the US as a "real estate transfer tax"), is much like a general sales tax: is regressive, and as the scoping paper notes inhibits the real estate market. In the US there has been a general trend towards reducing this tax and in Australia there is a general consensus that stamp duty ought to be reduced dramatically or eliminated. The Australian Capital Territory's (ACT) has been most active in pursuing this policy goal.

LVT may present a real improvement over the current systems which are confusing to the taxpayer and may indeed be limiting growth, development, and deployment of existing structures. In our LVT cities, most citizens quickly grasp the concept because the idea is consistently communicated that the local government wants to stop taxing something (buildings). Education is imperative, but a city of over 100,000 – Allentown Pennsylvania – confronted LVT in the ballot box twice and it was passed by a healthy 2 to 1 margin. Subsequent growth in population and tax base locked in the concept of LVT.

2. 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 has been a major selling point in our US LVT cities.

3. Geographically, the GLA is a huge expanse. While much of the land will not be used (for public benefit), that land which is open to construction is still un- or under-developed. What we've done in the past is compare the cost of building a house in the city compared to the suburbs or exurbs. When LVT changes the competitive advantage to urban building, all things being equal it becomes easier not only to build, but to maintain homeownership over a long period of time. CSE has developed a graphics that illustrate the comparative advantage of an LVT city to a generally lower taxed suburban jurisdiction.

4. In the US, LVT is generally an urban entity. Two counties in the state of Hawaii use LVT, but they are outliers. An LVT based solely in London is certainly possible. Frankly, there could be an unintended consequence of marginal areas becoming more viable as builders and buyers flock to the lower taxed jurisdiction. One thinks of the experience of Sydney. That should be answered with further research and consultation.

5. Future London Mayors could take advantage of LVT in a specific way: small business sites. "Should we buy a flat above the corner shop?" Is still a part of the real estate discussion in London and other large British cities. Obtaining a mortgage for residential units above commercial entities is difficult; LVT would make it certainly cheaper and redeploy an underused part of the built environment. Certainly infrastructure funding directly benefit from using LVT. The paper's citation of Crossrail is but one example.

I have attached a recent piece the Centre published in the "Public Sector Digest" describing how LVT functions and what problems it may address. Certainly, London needs a new strategy to house not only its people but to make it affordable for small business to serve residential areas.

The Center stands ready to assist and answer any questions the Assembly may have.

Sincerely yours,

Joshua Vincent

[redacted]

Urbantoolsconsult

Northeast Philadelphia Office: 7488 Oxford Ave.Philadelphia, PA 19111

Link to attached document

https://presentations.yesware.com/3faa3a18033b29abd2b10cec8de99bca54cf1beb/1bb24eff9379f9ce7ca43d6a0ccb4a80/62dda5da9d2a9bf2f7c9588af238ac32

Home Builders Federation
Some thoughts on a land value tax for London

The Question

What would a Land value tax mean for development in London?

London must accommodate a rapidly growing population that will rise to ten million people within the decade. It is essential that land is brought forward on which to develop the new homes, employment spaces, and supporting infrastructure the city will need.

Land value tax – ***a tax on the unimproved value of a piece of land*** *– is potentially an instrument that encourages the optimal use of land, imposing costs on holding undeveloped land, and capturing for the public purse the benefits of public investment in infrastructure.*

A land value tax should be considered as one possible mechanism for bringing forward land for the development that is needed to accommodate London's population growth.

I therefore hope to undertake a rapporteurship this autumn that would assess the potential benefits and costs of this tax and how it might encourage the best use of land in London. My aim will be to provide the new Mayor with a balanced assessment of the potential benefits of a land value tax and a significant contribution to the Mayor's evidence base in future discussions with Government on further devolution of powers to London.

In preparation of this rapporteurship, I am writing therefore to ask for your written views, ***by Wednesday 9th September****, on the following key questions:*

1. *What are the cases for and against introducing a land value tax in London?*
2. *How should a land value tax be designed to work optimally in London? eg should it be a targeted tax or apply to all land? how should land values be assessed?*
3. *What effect would a land value tax have on bringing forward land for development and on preventing land banking?*

Tom Copley AM
Londonwide Assembly Member

Some thoughts on a Land Value Tax from John Stewart, Director of Economic Affairs, Home Builders Federation

I have answered all three questions. However I have done so within a broader discussion, rather than answering them specifically, one-by-one.

Summary conclusions

For a tax to be worth considering, we would have to be sure that:

- It addressed a significant land-related constraint on housing supply;
- It was designed and targeted so that it achieved the objective of bringing forward more land for housing, without any benefits from the tax being outweighed by unintended negative consequences (e.g. deterring land coming forward);
- It was workable: it could be administered, with clarity about which land would be hit, not excessively expensive to collect, clearly defined and not open to endless discretionary decisions and disputes about whether or not a site should be taxed and the amount, etc. This would be extremely difficult to achieve.

So although a land value tax might appear attractive in theory, there would seem to be a strong case that in practice it would be extremely difficult, if not impossible to design and implement an effective, workable tax that achieved the objectives for which it was designed and didn't have serious adverse consequences.

One cross check would be to gather examples from overseas of successful land value taxes and examples of failures and/or taxes abandoned.

Some key considerations

Who would administer the tax? Who would collect it? Who would end up with the funds raised? Would the funds be hypothecated to development-related spending, or simply flow into general funds?

In discussions about land value taxation, there is too often a lack of clarity about what people mean by such a tax. CIL and S106 planning obligations requirements (through S106 agreements) are in effect a form of land value tax. Council tax is a property tax, but is often included in discussion about land value taxation. SDLT is levied on land value in land transactions. You could have taxes on, for example, derelict and vacant land. Or taxes on all land, whether in current use or not. You could have a tax on permissioned land, or on permissioned land where a permission has not been implemented by a certain time period (although planning permissions are time limited anyway). So the first step would have to be to decide what sort of land value tax we were talking about.

The case for a land value tax would probably have to rest on one or both of two perspectives: the incentive or disincentive effect of the tax on land owners with land that could be brought forward for residential development; and whether the use to which the funds were put would increase residential land supply (e.g. by funding infrastructure provision).

The problem with the incentive/disincentive perspective is that you would effectively be trying to tax intentions: the intentions of those who own or control potential residential land. Intentions are clearly very slippery, they can change according to internal and external circumstances and, in many cases, would unknowable to a tax authority.

What form of land value tax?

London, along with many other areas of England, has a serious undersupply of housing. There is only one long-term solution: increase significantly the level of new home building and sustain this high level for a prolonged period – i.e. bring about a much better balance between supply and demand.

There are many factors influencing the level of home building, some largely outside our control (e.g. the economic cycle), and some largely within our control (e.g. local authority management of planning applications). At present, house builders identify the two biggest constraints on housing output across England as industry skills shortages and shortages of local authority planning and legal resources and skills. However there are many other constraints.

Objectives for a land value tax: what problem are we trying to solve?

Turning to London, we need to start by asking two linked questions:

- Is there a shortage of land that *could realisticall*y *be used* for residential development? The phrase "could realistically be used" is important. In theory, almost any land could be used for housing development. However most land has a viable, current use and there is little or no realistic prospect that most of it will ever be redeveloped for housing. Some land will have a planning designation, such as Green Belt, which means it is unlikely to be developed for housing. So in designing a tax, presumably we need to think about land, whether vacant or currently in use, which could realistically be developed for housing, and not all land.

- If there is land that could realistically be suitable for development, but it is not being developed, what are the primary reasons? This could be ownership (e.g. the owner doesn't want to sell for perfectly legitimate reasons), access problems, lack of residential development viability, planning status, lack of suitable infrastructure, etc.

If we had a good understanding of why such land doesn't get developed (and I know of no detailed evidence, though the GLA may have evidence), would a tax on land help overcome any of these reasons? Molior research for the GLA has looked at the ownership of permissioned land and concluded that permissioned land that isn't being developed is usually owned by non-developers. However is there any research on who these owners are, and why the land is not being developed?In many cases there may be perfectly legitimate reasons why it isn't being developed or sold for development.

Only if we have the answers to these questions should be begin to consider the case for a land value tax: if such a tax would do nothing to increase the supply of residential land, and so housing supply, then the idea has no merit.

HBF does not have sufficient information to answer these questions, so we are reluctant to come down definitively for or against a tax. However, given that industry skills and local authority resources are such serious constraints, and that a land value tax would not solve either of these (unless perhaps the money was used to fund adequately resourced planning departments?), and given the obvious difficulties involved in designing an effective tax, we may well be better using our time and effort to seek to overcome the major constraints to supply, rather than spending time on a measure which may have little or no beneficial impact, and could easily have highly undesirable consequences.

Could we designing an effective land value tax?

The design of the tax would be critically important. It is not clear from the information provided what land would be taxed, how, to what level, whether this would be on top of council tax or, in the case of development land, on top of CIL and planning obligations requirements (in effect these are taxes on land value uplift), the planning status of land that was to be taxed, the current use of the land, its viability for development, etc.

It is likely to be extremely difficult to devise a land value tax that successfully increased the supply of residential land and housing without significant unintended adverse consequences.

A badly designed tax could end up having a detrimental impact on the amount of land being brought forward for residential development, or could even adversely hit house builders who were trying to develop sites.

A successful land value tax would ideally (a) increase the supply of land coming into the hands of those with the intention and ability to develop it (house builders, other developers, housing associations. etc), and (b) discourage people from holding potential residential land who don't intend to develop it or sell it to a developer. If so, then there are many questions we would need to address.

The tax should not in any way discourage or penalise those who hled land which they intended to develop or were already developing. So taxation of land banks of house builders would be counterproductive. This would need to include land grinding through the planning system, plus sites with planning permission which were being developed or were about to be developed.

However it should also not discourage those seeking a planning permission in order to value land to see whether they wish to dispose of the land for development (e.g. a company wishing to relocate but which can only do so if the land value is sufficient to cover the cost of a new site plus all their relocation costs). We do not know how common this is, but clearly a land value tax on permissioned land could discourage such applications.

It should not hit, say, a smaller developer who gets a permission but then finds he cannot raise the bank finance. Clearly a tax would make his situation even worse, and development even less likely. The obvious outcome from such a risk would be fewer planning applications.

Some planning applications will be speculative, in the sense that the owner is trying to assess the value of the land and see whether it is worth selling. A land value tax would discourage such applications because the owner would risk getting a permission, deciding for perfectly good reasons not to sell, and then being hit (in perpetuity?) with a land value tax. Such applications would probably dry up.

It is not known how often options are used in London, although they are common elsewhere and have a very valuable role in bringing land forward for development at little cost to local authorities. However a land value tax would discourage options. A land owner would be very reluctant to sign such an agreement with a developer if, given that is an 'option', the developer could get permission but decide, for perfectly legitimate reasons (e.g. market conditions, internal company financial reasons) not to exercise the option, leaving the land owner with no ability to implement the permission, possibly great difficulty in selling the site (e.g. because of market conditions), but liability for a land value tax.

It should not hit sites that are not being developed primarily because development would not be viable. For example, if a site had heavy contamination, so that it could not be developed viably, imposing a land value tax would simply made the non-viability worse and would certainly not bring the site forward for residential development.

The tax's financial impact would rise in a recession, when land would be less likely to be developed for obvious market reasons, and fall in a boom when land prices would be high and there would be every incentive for land owners to sell permissioned land to developers. This could increase the financial problems of potential developers in a downturn. In a very strong housing market, quite unlikely sites can came forward and look viable in the final stages of the upturn, but following a downturn many will never be developed, or only after many years, even some with planning permission, because development no longer viable. A land value tax would do nothing to bring forward such sites.

On what value would the land be taxed?

Current use value? But if a land speculator bought a site with a low value current use, and then got planning permission for residential, the tax on the low value current use would probably not be sufficient to encourage them to dispose of the site.

Value with planning permission? But that would just discourage people from applying for planning unless they were 100% sure they wanted to, and could develop the land. This would discourage planning applications and reduce the supply of land for housing.

Potential for housing and notional residential permissioned value, but with no planning permission yet? But who would decide a site had potential for residential development, how would they assemble sufficient information to know this, and then determine the value upon which to levy the value?

How would the tax work alongside current planning policies? E.g. the coalition government changed the status of back gardens to stop “garden grabbing”. Yet back gardens of large, older houses used to provide a steady source of land for small housing developments.

Sites refused permission: would the tax be levied on undeveloped sites which had been refused residential permission – hardly fair.

Types of land: would the tax apply to derelict and vacant land only? Or all brownfield land? Or all land, including all land in current use, greenfield land, etc?

John Stewart
Director of Economic Affairs
Home Builders Federation

[redacted]

11 September 2015

A Land Value Tax for London ?

Reflections from Richard Blyth, Head of Policy, Royal Town Planning Institute

October 2015

What are the positive and negative features for London of the current system of property taxation – and would a Land Value Tax be an improvement?

The problems with the current system of taxation is that productive activity such as earning and running a business is taxed heavily, and property is taxed lightly by comparison to other jurisdictions: a Manhattan flat can face an annual tax of $40 per $1,000 value. Moreover this has got worse over time. If domestic rates had been retained, in central London rather than being abolished in 1991, Band H homes[1] would be attracting rates of three times the current Council Tax (at 2014 prices).

In addition, property taxation is regressive, but income tax is not. And property tax being relatively low by both historic and international standards means that owners, many of whom are non-domestic, are less taxed than earners.

The absence of a proper property tax means that London (and other UK cities) have scant resources to address the current social and economic challenges they face and are hamstrung in their ambitions to invest in infrastructure and housing to enable future economic growth. UK cities raise the least proportion of the money spend in their areas of any cities in the OECD. They also (London excepted) stand out as having lower productivity than the country as a whole.

Furthermore, the light treatment of property as an asset class encourages people from all over the world to purchase it rather than making investments in productive activity. This drives up property prices faster than would be the case if they were responsive only to population growth. (Blaming high property prices solely on the *supply* of housing betrays little understanding of basic economics.)

Whilst we consider that there should be a ***big shift in taxation from incomes towards property*** the precise merits of different kinds of property taxes matter to us rather less. Land Value Tax has an important role in dealing with large areas of land put to less than optimum uses. We see this as being less of an issue in London than in some other British cities, or indeed than in many American cities. On the other hand improving Council Tax through

- Revaluation
- Adding several higher value bands
- Taking properties over £2million out of bands altogether and paying by value
- Making the increase in payment over the bands much steeper to make the payment reflect the value and thereby reduce regressiveness

could achieve many of the advantages of LVT without the larger upheaval needed to introduce it. The one other change which would be needed to match LVTs advantages would be to levy Council Tax on owners not occupiers.

LVT requires planning policy to set values. This is easier in some contexts than others. In the US the zoning system and the city block system make it easier for maximum heights to be set on buildings and for maximum numbers of potential homes to be calculated in advance and across large areas of the city. London is nothing like this predictable. The scale and value of brownfield development is

[1] see http://www.theguardian.com/commentisfree/2015/feb/16/mansion-tax-rebanded-council-tax-ed-balls

open to many uncertainties. These arise from a range of factors such as contamination, land assembly, and accommodating neighbours' concerns. And they are compounded by a severely unfit infrastructure financing system which requires different negotiated payments to around a dozen different infrastructure providers (including TfL) none of which can be easily forecast in advance.

Therefore we fear that protracted arguments and legal appeals would ensue if local government/the Mayor had to specify in advance exactly what taxable value brownfield land has. For example who knows today exactly what the value of Old Oak Common is for homes and offices? Would this be revised retrospectively if more or less development value got built than was expected originally? What would this do to incentives? How much would get bogged down in appeals and the courts?

If a means could be found to establish planning permission in principle at the time that the LVT was set, then owners would both have the security of a future value for the land and also the incentive to achieve it. However some grace period may be required from the moment of setting the LVT value to collecting it in full to allow for building out. To take Old Oak again, if the area takes 20 years to build out, it is reasonable to tax the land at its full future value from day one?

What is the potential role of a Land Value Tax for London in encouraging more housing land to come forward for development?

While we note that underused land is more of a problem outside London than in it, there are certain kinds of under used land even in London. I am thinking here especially of the large amount of land in use as superstores, retail warehouses and their accompanying car parks. A lot is made of the opportunity to rebuild council estates. A far easier option would be to build homes on this retail land. LVT would have the advantage over council tax and business rates of providing a strong incentive to do so. Alternatively (given the problems with LVT) use of compulsory purchase may achieve the same result more quickly for this particular case.

What potential effects would a Land Value Tax have on house building in the capital?

Property taxes in general could help because they would raise money for infrastructure and for land assembly. Lack of infrastructure is a key reason for local people to object to housing development: this would enable London government to address this.

Could it be introduced solely in London?

The big incentive to move to property taxes is that it would enable lower income tax. This should enable the number of winners to be sufficient to garner political support. This would be difficult to achieve in London alone and it needs to happen elsewhere too. If reform is confined to property taxation alone, a difficult calculus would be required which might mean having to *lower* property tax for many people in order to win support. (This would in addition lower the council tax benefit bill.) That would limit the value of the change for funding housing and infrastructure.

How might a future Mayor use a Land Value Tax to incentivise house building and raise funding for infrastructure?

See other responses above.

1. What are the cases for and against introducing a land value tax in London?

The principle behind LVT is arguably to capture the rise in value of a piece of land that is a consequence of the wider development and economic efforts. In this sense, it isn't actually a tax but a payment for benefits received (i.e. through infrastructure, community activity, schools etc.) so could well be described as a land rent. However the exact landed advantages gained is hard to value and not always capitalised on.

Cases for:

- The tax is Transparent and applies to an immobile base so is difficult to avoid or evade. Its application would require identification of land owners, and where that's not possible alternative arrangements would be made (e.g. forced sell off, putting land into trusts).

- It would reduce the cyclical nature of the market by reducing volatility in land prices and could potentially be used to offset other taxes such as SDLT, business rates and council tax.

- It is also less distortive tax that 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.

- It should be simple to implement *given valuation methadology of basic ground rent can be determined*.

- 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.

- LVT could also reduce urban sprawl by encouraging upward (vs outward) building; higher population density.

- LVT could replace SDLT which reduces liquidity and lowers mobility, capital gains tax and inheritance tax as well as business rates and council tax. This would simplify property taxation and property transactions

Cases against:

- Not all land is equally economically productive and some property is comparatively unproductive but has other social or environmental significance e.g. historic sites, private 'common' spaces etc.

- Social equity may be negatively impacted as the land value tax rate increases. This will particularly affect those that are cash poor (e.g. pensioners) but asset rich and those who do not seek have ways of capitalising on increasing land value. Though this could be addressed by deferring payment until property is sold.

- It is extremely difficult to value land element of an area excluding buildings. Valuations are likely to be subject to appeals.

- Creates 'pressure' for development but does not address other factors (such as planning, capacity, local and political barriers etc.)

- Tax rate would need to be high to change land ownership behaviour and to have a meaningful impact.

- Valuations would need to be carried out on regular bases to reflect changing market conditions.

- Where there is no demand for land, regeneration/development will need significant upfront investment to make it viable.

2. How should a land value tax be designed to work optimally in London? eg should it be a targeted tax or apply to all land? how should land values be assessed?

The land element of house value in London varies across London. The charge, though, only needs to be enough to create sufficient incentive to get sites/buildings occupied and used. At the same time, it would be worth reviewing Council Tax for sites where renewal etc. is required.

- The tax can be phased-in implementation over several (circa 6-10) years on a revenue neutral basis.

- Targeted tax taking into account privately generated (positive) economic spill overs and multiplier effects. The exact method for doing this work would need to be developed.

- Flexibility in tax rate setting (i.e. dual/split rates); provide a combination of credits, exemptions and varied rates to mitigate the burden on small property owners.

- Exemptions and special treatments: government property, schools, religious organizations.

- Residual value method: market value of a property less the cost of replacing its building and other improvements (less economic depreciation). However this is open to challenge.

- Allocation method: assumes land values are the same fixed share of total value across all properties.

- Contribution method: computer-assisted mass appraisal (CAMA) models that deconstruct property sales prices based on various attributes.

- The land value would need to be reassessed frequently.

3. What effect would a land value tax have on bringing forward land for development and on preventing land banking?

The above would disincentives land banking but it all depends on what the charges would be.

- Increased tax on land has a negative capitalisation effect, resulting in land being priced closer to its true market value; ability to obtain buildable infill lots at competitive prices makes this type of development more attractive to builders.

- Land prices decline by the capitalised value of future levies until a use for the land is found.

- Higher annual tax charges increase holding costs and profit risk on undeveloped land, thereby incentivizing land owners to build or sell.

- Discourages land speculation and inertia; shifts some/all of the property tax away from buildings and onto land; incentivising to invest in buildings and new buildings.

- Encourages landowners to develop vacant or underutilized properties, destroy decrepit/unoccupied structures, and upgrade existing buildings. As improvements to buildings are not the focus of tax, this should incentivise building improvements.

- Land value tax incentivises development and should increase supply of land onto the market however it does not guarantee delivery as planning, political and viability issues would still factor into deliverability.

+44 (0) 20 7665 1500
www.londonfirst.co.uk

[redacted]

2nd November 2015

Dear Mr. Copley

London First Response to Rapporteur Review of a Land Value Tax for London

I am writing to you on behalf of London First to provide a response to the London Assembly's investigation into the case for a Land Value Tax (LVT) for London. London First is a business membership organisation, our mission is to make London the best city in the world in which to do business. London First represents the capital's leading employers in key sectors such as financial and business services, property, transport, ICT, creative industries, hospitality and retail. Our membership also includes education institutions and further education colleges.

The Scoping note is clear that the potential role for the LVT is to encourage 'more housing land to come forward for development'. However, London First are unconvinced that a potential LVT will achieve this aim and are strongly of the view that it may have potentially negative consequences for London. Furthermore, London First believes that from a practical perspective, bringing forward an LVT for London will be an extremely complex and costly process, which would take many years to implement.

In terms of this, we frame our response around the following issues:

1. The practical considerations for bringing forward an LVT for London?
2. Will an LVT achieve the intended aim of encouraging more land to come forward for development?
3. What are the potential consequences of an LVT for London?
4. What are the alternatives?

Practical considerations and challenges of bringing forward an LVT

The complexities in bringing forward an LVT for London should not be underestimated. In terms of the minimum timescales, London First approximate that it could be at least 10 years before an LVT could be brought forward, assuming primary legislation would be required and significant resourcing implications, proof that this is not the best mechanism for seeking to deliver land for housing development in the capital particularly as a response to the current housing crisis.

Devolution of further fiscal powers for London could be highly contentious within both Treasury and Government. We estimate that getting the necessary political support and agreement and securing changes to existing (or new) primary legislation to establish an LVT for London is unlikely to happen within this Government. In addition, there would be budgetary requirements in order to undertake such an exercise including resourcing.

It follows that the financial and administrative requirements of developing an LVT system are particularly onerous. Firstly, parcelling land and identifying land owners on which the proposed charge will be levied – in particular, where there are multiple land ownerships and complex lease arrangements or where a landowner is unknown will be challenging. It will require a significant capital investment to fund administrative body and the personnel to undertake this work and is likely to be a very lengthy process.

Secondly, navigating the planning and valuations process to determine the optimum land use and its value will also have significant time and financial requirements. Site visits to each land parcel will be essential. Should the site be considered underutilised, its 'optimum use' will need to be established. This will necessitate a robust assessment of its development potential in terms of scale, height, massing, quantum of development and mix of uses likely to be expected/acceptable having regard to relevant planning policies, surrounding context and constraints to development.

Establishing a value for the site is also an equally complex process and would probably require further professional guidance as with other tax based valuations.

There would also need to be a consultation element for various stages of this process to allow land owners the opportunity to object or make comment on the proposed land valuation and tax levels proposed. Aligned to this, there is also likely to be an appeals process which will add further to the delays in delivering an LVT.

Will an LVT achieve the intended aim of encouraging more land to come forward for development and what are the potential consequences of an LVT for London?

London First are strongly of the view that an LVT is not the most efficient or best means to encourage land to come forward for development in London, particularly as a response to the current housing crisis. We believe that levying an annual tax on land based upon its existing or potential land use value will bring with it numerous negative consequences. We contend that an LVT system would be neither fair nor efficient nor achieve the aim that this Review intends it to:

1. The price at which land is valued cannot anticipate the possibility or probability planning permission being secured. We do not believe that the LVT will 'level the

playing field' by ensuring a realistic price is paid for land, could have the opposite effect of inflating site value above what might actually be achieved through the planning process.

2. Ownership of a piece of land/property is not an indication of a land owner's financial means to pay an LVT. For example, a 'large' dwelling that may have been in family ownership for a number of years may actually be a primary residence and yield no financial returns from which to pay the tax (nor is ownership an indication that those who live there have the ability to pay the tax). The end result is a tax on ownership not a penalty on those not bringing forward land for development.
3. An LVT system makes no allowance for a land owner's ability to bring forward a site for development, for example, to address significant constraints such as flood risk, contamination.
4. The assumption that a vacant piece of land should automatically be valued on its optimum land value without the benefit of having a planning consent in place oversimplifies the complexities associated with the planning system and conflicts with valuation advice from the RICS. In our view having two very different approaches to how a site is valued is inappropriate and fraught with all sort of issues. Without the certainty of planning permission being in place, any valuation will need to have careful regard to a wide array of issues including market conditions, site context and relevant planning policies.
5. Where land is brought forward for development in response to the LVT, there is an inherent risk that a hastily brought forward scheme will deliver sub-standard development both in terms of mix and scale of uses and overall design quality.
6. An LVT takes no account of optimum land use planning scenarios from a strategic perspective and runs the risk of encouraging land to be brought forward in a piecemeal manner, where consolidation and master planning of a wider area would have been a more sustainable approach leading to better planning, design and placemaking outcomes.
7. We also consider that this approach would have significant implications on affordable housing delivery. The impact of this would in our view artificially inflate site values and impact upon development viability and ultimately, would reduce the level of affordable housing that a scheme could deliver.
8. LVT would replace the existing business rates and council tax regimes. The collection of these taxes is a significant source of revenue for both central and local government (£22.7bn and £23.4bn in 2013/14 respectively)[1]. Whilst in 2015 the government has committed to fundamental review and improvement of the business rates regime at least, it has always been maintained that the outcome of any review must be fiscally neutral. It therefore seems unlikely that the Treasury could risk the

[1] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/380774/Revised_NNDR3_2013-14_Statistics_Release.pdf
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/327179/Council_tax_collection_rate_Statistics_Release_July_2014.pdf

revenues from a new LVT being materially less than they currently receive and creating another infrastructure for tax collection.

What are the alternatives?

In London, most of the larger brownfield and underutilised sites prime for development are within public land ownership e.g. TfL, NHS, Council owned sites. Unblocking the constraints to the delivery of these sites would be a much ‘easier win’ and deliver housing development earlier than an LVT system.

For land in private ownership, an incentive and intervention based approach to delivering development would be more successful. Potential incentives and solutions that could be considered include:

- tax breaks or reliefs linked to delivery of development within specific timeframes;
- further use of the Tax Increment Financing process;
- the greater use of simplified planning within specified areas (e.g. such as those proposed for housing zones);
- enabling better use of the Compulsory Purchase process where there is a strong case for intervention, particularly for strategically important sites that are not being delivered.

In conclusion, London First are strongly of the view that a land value tax system for London will not achieve the desired aim of encouraging land to be brought forward for development nor is it an efficient means of doing so. In fact, it will have the opposite effect, resulting in poorly considered and piecemeal development and puts at risk the delivery of affordable housing. Better, more efficient, alternatives to deliver land for development include a combination of incentives and interventions, where necessary.

As discussed with you recently, we would be happy to meet to discuss the above. I look forward to hearing from you in due course.

Yours Sincerely

SParkinson

Sara Parkinson
Programme Director, Policy
London First

cc.   Paul Watling   London Assembly

Land Value Tax

Dr Oliver Hartwich, 29 September 2015

I haven't written anything on land value taxes since I published the article you mention (below).

However, more generally speaking I see LVTs in the same category as all other demand-side measures. They are trying to deal with a problem that is fundamentally driven by a lack of supply. As such, demand-side measures such as land value taxes, capital gains taxes or macro-prudential regulations are not the way to go if you want to solve the housing crisis and make housing more affordable again.

A few months ago, I wrote a short piece on this in a New Zealand context. Perhaps that's of interest:

http://oliverhartwich.com/2015/04/20/how-to-build-rational-building-expectations/

Best wishes from Wellington,

Oliver

[redacted]

Taxing land value is just another questionable tax

Published in Economic Affairs (London/Oxford), December 2006, pp. 61-63 (PDF)

There has recently been much public debate about the introduction of a land value tax. To its supporters such a tax promises to achieve several goals simultaneously. On closer inspection, however, the arguments in favour of land value taxation are not convincing. On the contrary, the economic foundations on which proponents of this tax rely are dubious, and there are significant legal, moral and practical problems with land value taxation.

Curious coalitions for a 'panacea tax'

One of the most curious coalitions in British politics has formed around the question of land taxation. The new Liberal Democrat environment spokesperson Chris Huhne MP, former Conservative minister David Curry MP and former Labour cabinet minister Tony Benn may not share many political convictions, but they have all spoken out in favour of the introduction of a land value tax (LVT).

With land values having reached astronomical heights, it is rather unsurprising that politicians realise how much money could be collected if land value was taxed. To many of the supporters of land value taxation, however, a potential LVT is not just another government revenue-raising measure, but something much more profound. They make a moral case for it by claiming it would only tax 'excessive, unjustified rents' without distorting the market. They claim it would solve the housing crisis by bringing idle and under-utilised land back into the market. At the same time they believe LVT would also counter 'urban sprawl', keep land prices and interest rates low and stop land speculation. Some of the most ardent supporters like Dave Wetzel, vice-chair of Transport for London and chair of the Labour Land Campaign, even go further than this: he claims that LVT would also stop tax avoidance, create sustainable communities and lower other forms of taxation such as income tax. In other words: LVT, properly enacted, could cure all sorts of problems that modern society faces, according to its supporters.

All the things mentioned give the impression that LVT could be an extremely attractive form of taxation with lots of positive side effects – the economic equivalent of a panacea. There is only one problem with this approach: It is deeply flawed both from an economic, a moral and a pragmatic perspective.

The long history of land value taxation

LVT is certainly not a new idea. It was first propagated by the French physiocrats of the eighteenth century. Later classical economists like David Ricardo developed a theoretical foundation for LVT. The most outspoken theorist was the American publicist Henry George in the late nineteenth century. He went so far as to suggest that a single LVT could replace all other forms of taxation.

Modern economics has certainly started with the classics, but it has not stopped there. Today we see that most of the arguments in favour of LVT rest on a few axioms that are either highly questionable or outright wrong. First, it is assumed that land ownership does not fulfil any economic function and that, therefore, all income received from owning land is basically unjustified, even unjustifiable. In order to reach this conclusion the supporters of LVT since David Ricardo have divided land rents into rents that derive from the land itself and rents that derive from the improvements done to this land. For example, if one cultivated a piece of land or built a house on it, then such investment would – even in the eyes of LVT supporters – justify an income. But the income that simply flows from the 'indestructible powers of the soil' (Ricardo) would not.

In practice, however, one could hardly ever separate the incomes from land and from improvements to the land. It would take a government agency and some highly questionable assumptions to determine which part of the value of the land was 'justified' and which was 'unearned' and thus taxable. But worse than that, modern economic analysis has moved beyond the old Ricardian land value theory and concludes that each factor of production will receive its marginal product. This means that land does not receive the residual value of all economic activity, but capital and labour equally receive value according to what they have contributed.

There is a more fundamental flaw in the reasoning of the supporters of LVT. They assume, implicitly or even explicitly, that landowners do not perform an economic function. Their perception of landowners is that they do not contribute the least to the economy, yet at the same time they reap large profits from owning their land. From this perception it is not far to the claim that their allegedly undeserved profits from land should be taxed away.

The landowner as entrepreneur

Closer inspection, however, reveals that landowners perform a number of valuable economic tasks. Like the owners of any other factor of production, landowners have to make frequent decisions on what use to make of their property. They decide in which way to utilise their land, which could mean to keep land idle. For one, there is much more land than there is labour to keep all land in use all the time. Secondly, it can be necessary at times to keep land from the market and wait for a better opportunity to bring it back into use, for example when there is a chance to develop a larger area. These decisions have to be made, and they have to be made by someone who bears the economic consequences. This is the task of the landowner who accepts the residual risk and takes the opportunity costs of withholding land from its most valuable unrealised economic potential. In many ways, the role of the landowners resembles that of entrepreneur-investors in other markets. Like any other investor they have to allocate scarce resources over time and ultimately direct them to their most productive uses. To take this role from them by means of taxing the value of their property means creating a distortion in the market as landowners would be unable to make independent decisions about their property. It resembles a kind of central planning in the land market.

People owning land should be treated like people owning other forms of capital. Owning a factory, money in a bank account or a plot of land should thus not be taxed on their respective values, but on the actual income – not a hypothetical income – generated from them. The proper tax for this is the income tax. An additional land value tax would be both unnecessary and undesirable. Besides, it would not fit into our general approach to taxation. In our current tax system people are usually not taxed for the resources they own but for the income they make from these resources. For example, you would not be punished if you decided to keep your money in a money sock or a piggy bank instead of directing it to a high-interest investment. You would only be taxed once your capital yields an income. Thus the capital owner is free to decide how to use his resources, even if that means running the risk of not making the most of them. In a market economy with individual autonomy, however, this is something that has to be accepted. It is the general principle of a market economy with private property rights that property owners are free to make their own decisions.

As we have seen, in a market in which landowners make decisions about land uses, an LVT would have severely negative economic side effects. Yet in Britain, land-use decisions are not only made by landowners, but also by planners. In effect this means that landowners would often not even be able to make the most of their land, but they 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? Once again, an LVT would turn out to be a source of extreme legal uncertainty – and it would be difficult to implement, practically.

The moral problem of land value taxation

In addition to all these economic difficulties, there is a further moral complication to LVT. As the supporters of LVT claim, the tax should be levied on the intrinsic value of a site. But it turns out that such values often depend on the surroundings of the plot and not only on the plot itself. There is no purely intrinsic value, especially when it comes to land in the cities. In other words, changes made by your neighbours will affect the value of your property. If your neighbour builds a polluting factory, your land value and thus your LVT will fall. If your neighbour, however, opens a theme park or if a new tube line stops in front of your door, your land value will increase and with it the tax you would have to pay on it. So in other words, the tax one has to pay does not actually depend solely on one's own property positions, let alone one's financial situation, but on the consequences of other people's actions. Surely, such a system of taxation cannot be regarded as fair or just.

Nor would it be fair or just to treat different circumstances equally for tax purposes. Two landowners may have equally sized plots of land in similar locations, but one of them may have a big, luxurious house whereas the other one only lives in a small cottage. One may have a high income, whereas the other one lives on a small pension. Yet when it comes to paying their LVT both would be assessed on the value of the land alone, regardless of real estate values or income. Most people would not think that such a tax system fulfilled the basic criteria of equity. It is actually the same argument against LVT that is also often used against council tax, i.e. that it is unfair to treat different circumstances equally and that it is highly regressive.

Conclusion

To sum it up, LVT does not hold the promises its supporters frequently make. In practice, it would simply be another tax, which would create distortions in the property market, lack legal certainty and violate some basic moral principles of taxation. It may be understandable that politicians of otherwise different convictions may all realise the budget-increasing potential of introducing an LVT. But the potential tax revenue should not make us blind to the serious shortcomings of taxing land value.

Submission to the London Assembly Planning Committee
A Land Value Tax for London?

Mark Wadsworth LLB BA ACCA ATII
[redacted]

FINAL SUBMISSION 21 NOVEMBER 2015

For and on behalf of The Land Value Taxation Campaign
http://www.landvaluetax.org

Definitions

- The ‘Site Premium’

Various different expressions are used to describe the tax base, i.e. the amount to which the percentage tax rate (or ‘poundage’) is applied. The convoluted expression often used is ‘the location-only annual rental value of any site assuming optimum permitted use’. As to ‘permitted’ use, for ninety-nine per cent of developed plots, we can assume that the optimum permitted use is the actual use.

This submission will use the expression ‘site premium’. This is quite simply the total annual rental value of any building plus surrounding plot, minus the amount of the rent that relates to providing the building itself (amortisation of bricks and mortar or notional interest cost, repairs and maintenance, insurance). The actual interest paid to the bank is not a cost of providing the building; it is a measure of how much of the land and building belongs to the bank.

For various reasons, it is better to overestimate the ‘bricks and mortar’ cost, resulting in a lower site premium and applying a higher tax rate to that lower figure. For the purposes of this submission, we estimate the bricks and mortar cost for a normal three-bed semi-detached house, at £4,000 per annum, with correspondingly lower or higher figures for smaller or larger homes.

- Undeveloped sites

In this category we include all land that could be developed. So land in a flood risk zone or where planning would never be granted for some other reason is not ‘undeveloped’ for these purposes. This category also includes chronically underdeveloped sites, sites with derelict or long-term vacant buildings and demolition and construction sites.

Truly ‘public’ land, such as roads, pavements and parks is of course excluded.

An undeveloped site clearly has little or no current rental value, so the site premium can be calculated on the assumption that the site is developed to a similar density and use as surrounding sites. Developers usually work on the basis that they will be allowed to build to the density foreseen in the London Plan[1], which is a detailed map with permissible densities marked for all locations. This can be used as a guide to valuations.

In practice, the LVT can be calculated as a very low percentage of the current potential selling price of undeveloped land in each area.

[1] http://legacy.london.gov.uk/thelondonplan/maps-diagrams/map-2a-03.jsp

Executive summary

The key question in the scoping paper seems to be *"the potential role of a Land Value Tax for London in encouraging more housing land to come forward for development"*. We invite the members of the Planning Committee to take a wider view.

- A tax on undeveloped land

This submission explains how simple it would be to replace existing distortionary taxes on undeveloped land and construction sites (s106 charges, Community Infrastructure Levy and SDLT on first sale) with a fiscally neutral annual Land Value Tax and provides an estimate of the tax rates and amounts.

- Simplification and harmonisation of existing taxes

We will not dwell on all the moral and economic arguments in favour of LVT and against taxes on earned income. In the context of this submission, LVT would:

- Be an efficient replacement for existing property related taxes,
- Encourage more efficient use of existing buildings,
- Encourage more efficient use of 'land' (i.e. existing infrastructure),
- Encourage more efficient use of un- and underdeveloped sites
- Dampen land price inflation and reduce the windfall gain to landowners when planning permission is granted or when permitted densities are increased.

This submission also explains how simple it would be to replace all existing taxes on London land and buildings with a fiscally neutral LVT, or by reforming Council Tax and Business Rates to make them much more like LVT and provides estimates of tax rates and amounts.

- Political objections to LVT

We are perfectly aware of the 'political' objections to LVT, which are disseminated by the banks, landlords, large landowners and pensioners sitting on massive windfall gains.

Often these purely political (i.e. nakedly self-interested) objections are dressed us as questions of practicality. On closer inspection, these are all baseless or are transitional issues that will sort themselves out with time. Even more infuriatingly, they do not consider how much the LVT would be in pounds, shillings and pence and how it compares with existing property taxes.

The most commonly raised objection is "The Ability to pay" argument, see Appendices 10 and 11. The other most common objection is the supposed impossibility or expense of assessing site premiums, which is actually very simple and needs not be particularly precise for a low-level LVT, see Appendix 5.

Question 1a: What are the positive and negative features for London of the current system of property taxation?

The London Finance Commission's ('LFC') final report of 2013, "Raising the Capital", Chapter 4[2] addresses the shortcomings and inefficiencies of existing property taxes (including s106 charges/the Community Infrastructure Levy). There is little we need to add to this – the only positive features we see is that at least they are not taxes on earnings or output.

We broadly agree with the recommendations at the end of that Chapter:

R16: We recommend that the full suite of property taxes (Council Tax, business rates, stamp duty, annual tax on enveloped dwellings and capital gains property development tax) should be devolved to London government which should have devolved responsibility for setting the tax rates and authority over all matters including revaluation, banding and discounts.

R17: The yields of these newly devolved taxes should be offset through corresponding reductions in grant to ensure a fiscally neutral position for the Exchequer, at the outset.

R18: Specifically, we recommend that 100 per cent of business rates should be devolved to London government, through an appropriate governance mechanism, including the responsibility for the timing of revaluations. London government should be free to determine such issues as discounts and tax breaks, and should have the freedom to use business rates to undertake 'Enterprise Zone'-style interventions.

NB – this recommendation will be implemented and phased in by 2020.

R19: If business rates are localised in the way we propose then London government should put in place a scheme that would protect ratepayers from any perceived risk of unreasonably high rate increases, in consultation with business.

R20: At such a time that business rates were wholly retained in London, alongside other property taxes (as we recommend), London government should set the business rate multiplier in London, again in consultation with appropriate stakeholders.

R21: 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 that we advocate.

R22: Council tax should be retained as a local tax but London government should be given the power and be required to hold periodic revaluations (undertaken by the Valuation Office, according to national practice), to determine the number of bands, to set the ratio of tax from band to band and to set the tax rate. A fully localised Council Tax of this kind would be part of a suite of local property taxes determined by London government.

2 https://www.london.gov.uk/sites/default/files/Raising%20the%20capital.pdf

Question 1b. Would a Land Value Tax be an improvement?

Yes, of course.

- All the property taxes listed by the LFC, together with s106 charges, the Community Infrastructure Levy, Inheritance Tax on London land and buildings and the TV licence fee could be replaced with a single London-wide LVT on a fiscally neutral basis.

- LVT would have none of the shortcomings and disadvantages associated with existing property taxes and would meet all the LFC's Recommendations above.

- As explained in Appendices 1 and 5, this can be achieved by adapting the existing systems for assessing and collecting Council Tax and Business Rates.

- Recurring taxes on land and buildings (Council Tax and Business Rates) have the highest collection rates of all major UK taxes at 97% and 98% respectively[3], even though they are collected from occupants rather than owners and many commercial premises are owned by non-UK resident bodies. If the registered owner were made liable for arrears and unpaid tax registered as a charge against the title at HM Land Registry, collection rates would be close to 100%.

- Three million people – largely tenants – are taken to court for non-payment of Council Tax each year[4] and 200,000 people were prosecuted for non-payment of the TV licence. Wealthy people can pay for expensive tax planning schemes to try and avoid Inheritance Tax or Stamp Duty Land Tax ('SDLT'). Rolling all these into a single annual tax payable by the owner will reduce collection costs for councils and compliance costs for taxpayers enormously.

- Would be more neutral between residential and commercial use.

The basis of assessment would be more or less the same whether land is used for business or residential purposes, whether it is developed or undeveloped.

In political terms, there would initially have to be a lower rate on housing than on commercial premises, but ideally the rates would be aligned over time to prevent 'tax arbitrage'. People can currently make windfall gains by acquiring commercial buildings liable to relatively Business Rates and then applying for conversion to residential use (encouraged by 'Permitted Development Rights') that is subject to Council Tax, which is much lower than Business Rates. This pushes up the selling price of the building but which is denuding central boroughs of office space, or local neighbourhoods are seeing a long loved pub demolished and replaced with flats.

If the rates were aligned at 21.8%, total revenues would remain constant and this perverse incentive would fall away.

[3] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/327179/Council_tax_collection_rate_Statistics_Release_July_2014.pdf

[4] http://www.independent.co.uk/news/uk/home-news/half-a-million-more-people-summoned-to-court-over-unpaid-council-tax-after-benefits-scrapped-10158721.html

- Calculating the tax rate is simple – it is the total revenue required (however much we need to replace existing property taxes) divided by the total site premium. See Appendix 1. To maintain fiscal neutrality, the required rates would be as follows:

	LVT as a percentage of the site premium	LVT as a percentage of current selling prices
Residential	16.5%	+/- 0.5%
Commercial	34.2%	+/- 3.0%
Undeveloped land and construction sites	n/a	+/- 0.5%
Harmonised rate on all land	21.8%	n/a

- LVT would have an immediate effect on housing supply by encouraging more efficient use of existing housing and suitable buildings.

An increase in the tax rate on vacant and derelict buildings (no more 'tearing the roof off') increases occupation rates – this was observed by the increase in occupation rates after the government reduced the Business Rates exemptions for vacant commercial premises in 2008 (even in the teeth of a recession).

Levying full LVT on all the flats over shops, many of which are vacant or just used for storage will encourage the owners to refurbish them and bring them into more active use, whether as commercial or as living space is neither here nor there.

Every disgruntled pensioner who decides that the tax is not worth it and finally sells the family home and moves away or into smaller accommodation frees up cash for his retirement and frees up housing for a young family or some working age adults sharing.

We know this sounds callous, but if 30,000 single pensioners were to move out of a house or a large flat each year and be replaced by adults sharing or a young family, that would enable London's population to grow by 1.5 million over the next twenty years (as predicted in the scoping paper) without any new housing being built whatsoever, there would just be a lot of refurbishment work going on.

- LVT would be neutral between current and future owners.
- LVT would be fairer between landlords and tenants.
- LVT would level the playing field between potential owner-occupiers and landlords.

SDLT encourages people to hold on to housing rather than sell it - and discourages people from buying it - when they no longer need it, so they tend to become landlords, accidental or otherwise. A tenant who would rather be an owner occupier faces the massive hurdle of saving up ten or twenty thousand pounds for SDLT if he wishes to ‘get on the property ladder’, but the landlord does not have to pay any SDLT to remain several rungs higher, on the ladder. So abolishing lump sum SDLT on a sale and making the landlord pay more in LVT will help level the playing field.

Rents are not a function of the landlord’s costs, they are set by the upper limit on what tenants are willing and able to pay. The landlord is a ‘price taker’. If tenants no longer have to pay Council Tax and the TV licence and these are included ‘for free’ with the rent, then tenants will be willing to pay slightly higher rents and landlords will largely break even.

If the LVT rates are increased in future, then the additional future tax will be borne by the landlord, as the amount that the tenant is willing and able to pay is unaffected. The landlord cannot pass on the LVT. This is a well-established economic theory, which is easily observed in practice.

Some low-income private tenants claim Local Housing Allowance, which is a subsidy to landlords i.e. a kind of negative LVT. That money would be far better spent on building more social housing.

LVT would help level the playing field in the other direction as well. At present, the total tax take from rented housing is much higher than from owner-occupied housing, so a larger private rented sector is good for the Exchequer even though the stated aim of successive UK governments has always been to increase owner-occupation rates. This differential would be lower if more were collected in LVT and less in other taxes.

<u>Question 2. What is the potential role of a Land Value Tax for London in encouraging more housing land to come forward for development?</u>
<u>Question 3. What potential effects would a Land Value Tax have on house building in the capital?</u>

In the previous section we recommended that LVT be extended to all London land. Alternatively, LVT could be introduced solely on undeveloped land.

The total taxes and charges on new construction in London (s106 agreements, Community Infrastructure Levy and SDLT on first sale) raise approx. £500 million a year. See Appendix 6

We recommend that these three taxes/charges be replaced with a single annual tax on undeveloped land. There is enough undeveloped land in Greater London for approx. a quarter of a million new homes (13,000 acres). If the LVT per potential home were the same as the average tax on existing homes (around £2,000), revenues would be £500 million. The £500 million would average out at around 0.5% of its potential current selling price, which ranges from £3 million/acre in Havering to £40 million in K&C, Westminster or The City.

These taxes discourage development as they are only triggered when development actually happens. LVT would benefit property developers at the expense of owners of undeveloped sites. A developer with only a couple of years to completion would pay considerably less tax than at present. Owners of undeveloped sites would now have a real holding cost and would pay considerably more.

- To what extent would such a modest tax encourage owners to develop their sites or sell them to a developer?

We do not know, but let us assume that there is enough land in London for 250,000 new homes. Releasing development from the brake of 106 agreements, CIL and SDLT on first sale might mean that an additional 2% of it comes onto the market and is developed each year. Imposing LVT would have the same effect. The overall ‘carrot and stick’ effect would be to increase new housing supply from 15,000 to 25,000 a year.

To help the developer’s cash flow, the annual tax could be deferred during the construction period and the accrued amount would be payable on completion/sale, much like any other mezzanine finance (i.e. loans which are repayable on completion and receive a set share of the overall selling price or profits) in the construction sector.

Question 5: How might a future Mayor use a Land Value Tax to incentivise house building and raise funding for infrastructure?

The LVT we have proposed is a low-level fiscally neutral replacement tax that would have very positive effects on the supply and efficient use of housing and commercial premises.

Once a Mayor has had the political will to introduce an LVT for London, we can observe what happens and gradually increase or harmonise the rates accordingly. If this improves outcomes, then the rates can be nudged up a bit more. There is a physical and practical upper limit to the amount of new construction that can take place in London (availability of materials, skilled labour and machinery) and once this level of output has been reached, higher rates of LVT will not increase new supply.

- How the proceeds are spent is a separate issue and we have no strong opinions on this.

The proceeds could be spent on improving the rail network, turning around failing schools, improving policing and counter-terrorism measures to make Londoners feel safer or topping up wages to the London Living Wage. What is important is that the spending is focused on areas that make London more attractive, thus boosting rental values, thus increasing future revenues in a self-reinforcing cycle.

- There is another important effect of LVT – it can be used to slow down or reverse house price growth.

It would be a brave Mayor indeed who said he would make house prices fall, but there must be plenty of political support for at least slowing down further growth.

The relationship between LVT and house prices on a static basis is simple enough - £1 additional LVT pushes down selling prices by about £30. The actual increases in house prices are driven by more psychology and estimates of increases in rental values or falls in interest rates and becomes a self-fulfilling prophecy.

So if a Mayor made it clear that LVT rates would increase faster than rents or house prices, this would act as a brake, while generating the extra revenues need to fund the spending and investment needed to promote those increases.

Question 4: Could an LVT be introduced solely in London?

Yes, of course.

- Council Tax is a localised tax already, and from 2020 onwards, councils will be allowed to retain 100% of Business Rates from their area and vary the rates.

The faintly ridiculous law that says a council has to hold a local referendum if it wishes to increase Council Tax by more than 2% would have to be suspended for London. The Community Infrastructure Levy and s106 agreements are up to the discretion of local councils. These taxes and charges account for nearly two-thirds of the total revenues considered in this submission.

- Other devolved assemblies show what can be done.

Scotland was given the power to replace SDLT with its own version called Land and Buildings Transaction Tax. Northern Ireland has its own version of Council Tax called Domestic Rates, which is calculated at around 0.7% - 0.8% of selling prices as at 1 January 2005. Wales revalued all housing for Council Tax purposes in 2005 and introduced an additional Band I.

- We refer again to the LFC's Recommendation 17:

R17: The yields of these newly devolved taxes should be offset through corresponding reductions in grant to ensure a fiscally neutral position for the Exchequer, at the outset.

Broadly speaking, land and buildings in London would be exempt from SDLT and Inheritance Tax (total revenues £6,237 million); the national government would reduce grants to London by £6,237 million; and the London Assembly/London boroughs would collect an additional £6,237 billion locally. To put this in perspective, Department for Transport grants to Transport for London were £4,560 million in 2015[5]. Ninety per cent of homes liable to the Annual Tax on Enveloped Dwellings ('ATED') are in London so this tax could be abolished as a stand-alone tax.

All of this is feasible in terms of politics, administration or legislation.

- The UK has experimented with Enterprise Zones over the years, exempting commercial premises in defined areas from Business Rates and/or SDLT. These experiments never worked, because landlords merely bumped up the rent or selling price accordingly, leaving tenants no better or worse off. But all it would require is a statutory instrument exempting land and buildings in London from SDLT.

[5] http://content.tfl.gov.uk/annual-report-2014-15.pdf

- Similarly, the Inheritance Tax Act 1984 contains long lists of exempt property in Part V, such as woodlands, agricultural land and heritage sites open to the public on a certain minimum number of days a year. It would be no problem to include another paragraph in the Act stating that land and buildings subject to the LVT in London are also IHT exempt.

- Instead of the BBC collecting the TV licence directly from London households, the London Assembly would simply send the BBC a cheque for £37.5 million each month and collect a corresponding amount as part of people's LVT bills.

- The next issue is how revenues from all London boroughs are to be pooled centrally and then redistributed back again to be spent at borough level. This will lead to a lot of political infighting, which is not central to this submission. Birmingham, a city of over a million operates as a single metropolitan/unitary council and will be merged with four neighbouring local authorities in the coming years to form a single West Midlands unitary authority.

Appendix 1: The tax rates

The required tax rate C as a percentage is quite simply total required revenues A, in this case however much is need to replace existing taxes, divided by the tax base B, the total site premium of London land.

A. Existing taxes on London land and buildings

	Residential £ million	Commercial £ million	Undeveloped £ million	Total £ million	Note
Required revenues:					
Business Rates		6,500		6,500	1
Council Tax	3,637			3,637	2
Stamp Duty Land Tax	3,590	1,197	250	5,037	3
Inheritance Tax	951			951	4
TV licence	450			450	5
S106 agreements and Community Infrastructure Levy			250	250	6
Annual Tax on Enveloped Dwellings	104			104	7
Total required revenues	8,732	7,697	500	16,929	

1. Total Business Rates in the UK are £26 bn[6]. Approx. one-quarter of this is paid on premises in London.
2. Total Council Tax revenues on all 23,367,000 homes in England £24,558 million[7]. There are 3,461,000 homes in London = £3,637 million. The average Council Tax in London is £1,050[8] multiplied by 3,461,000 homes = £3,634 million.
3. Total SDLT revenues for the UK ex. Scotland are £10,738 million[9], of which 46.9% is paid on London properties[10] = £5,037 million. We estimate the total paid on new housing at £250 million and have apportioned the balance three-quarters to housing and one-quarter to commercial.
4. Total IHT collected in the UK is £3,804 million[11]. Most of this is on land and buildings and one-quarter is paid by Londoners[12].
5. 3,461,000 homes x £145.50 a year x 90% collection rate.
6. Maintainable long run average[13]
7. Total UK revenues from ATED are £116 million[14], we have allocated 90% to London.

[6] http://www.bbc.co.uk/news/business-34445311
[7] https://www.gov.uk/government/statistical-data-sets/live-tables-on-local-government-finance
[8] https://www.gov.uk/government/statistics/hmrc-tax-and-nics-receipts-for-the-ukhttps://www.gov.uk/government/uploads/system/uploads/attachment_data/file/445085/150714_Revised_Council_Tax_Stats_Release_July_2015.pdf
[9] http://www.bbc.co.uk/news/business-34445311
[10] http://www.ft.com/cms/s/0/e814d3f4-3780-11e5-bdbb-35e55cbae175.html#axzz3r7KDuYtH
[11] https://www.gov.uk/government/statistics/hmrc-tax-and-nics-receipts-for-the-uk
[12] http://www.cityam.com/226469/londoners-pay-a-quarter-of-the-uks-inheritance-tax
[13] http://www.futureoflondon.org.uk/futureoflondon/wp-content/uploads/2010/09/Community-Infrastructure-Levy.pdf
[14] https://www.gov.uk/government/statistics/hmrc-tax-and-nics-receipts-for-the-uk

B: The total site premium of land in London

- Commercial

According to the BPF Property Data Report 2015[15], the total rental value of UK commercial premises plus Business Rates is £83 billion a year, of which 36% relates to London = £30,000 million.

The overall average annual rent payable for one square foot of office space in London per year is £55[16]. The construction cost of one square foot of office space in London is £212 per square foot[17] and the annualised bricks and mortar cost is (say) 6.5% of that = £14 per square foot. Including Business Rates, a shop on a high street in Zone 3 costs £80/sq ft per year, so £66 is site premium. A shop on Bond Street costs £1,000/sq ft, so £984 is site premium.

This means that around three-quarters of total rents relate to the site premium = £22,500 million.

- Residential

The average monthly rent for a flat or house in London is £1,506 a month[18], to which we add average £1,050 Council Tax and £145.50 TV licence = £19,268, minus bricks and mortar cost of £4,000 = £15,268 site premium.

There are 3,461,000 homes in London = total site premium is £52,842 million.

C: The required tax rate

- Commercial

Required revenues are £7,697 million, applied to the tax base (total site premium) of £22,500 million means a tax rate of 34.2%.

- Residential

To collect £8,732 million tax from a tax base of £52,842 million requires a tax rate of 16.5%.

- Harmonised rate

If the same rate were applied to commercial and residential, the required revenues are £16,429 million, the tax base is £75,342 million and the required tax rate is 21.8%.

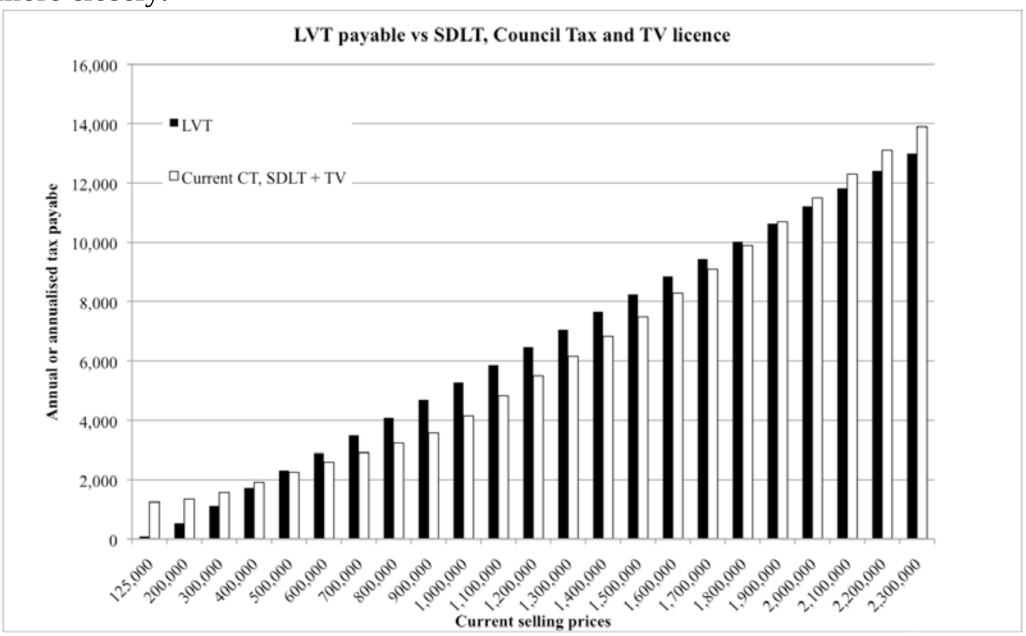
[15] http://www.bpf.org.uk/sites/default/files/resources/PIA-Property-Data-Report-2015-single.pdf
16 http://www.telegraph.co.uk/finance/property/11701898/Is-it-boom-or-bust-time-for-the-hot-London-office-market.html
17 http://www.constructionenquirer.com/2015/07/01/building-costs-in-london-now-second-highest-in-world/
[18] http://homelet.co.uk/assets/documents/HL3729-May-2015-HomeLet-Rental-Index-08.06.15.pdf

Appendix 2: What does this mean for my wallet?

With an LVT of 16.5% of the site premium, annual bills will be approximately as follows:	Current selling price of a terraced house	LVT	Tax as % of current selling price	Current SDLT on sale
Postcode sector deciles	£	£	£	£
Lowest	252,000	852	0.34%	2,600
Second	302,000	1,154	0.38%	5,100
Third	347,000	1,427	0.41%	7,350
Fourth	373,000	1,584	0.42%	8,650
Fifth	425,000	1,898	0.45%	11,250
Sixth	483,000	2,249	0.47%	14,150
Seventh	609,000	3,011	0.49%	20,450
Eighth	788,000	4,094	0.52%	29,400
Ninth	1,109,000	6,035	0.54%	54,650
Highest	2,228,000	12,803	0.57%	181,110

Clearly, the annual LVT on two-thirds of home would be more than current Council Tax plus TV licence, which is on average £1,200. That is not a fair comparison. London is unusual compared to the rest of the UK – the highly visible Council Tax is very low but for every £1 Council Tax collected another £1 is collected in SDLT (the ratio for the rest of the UK is one £1 Council Tax to 16p SDLT). Although 'stealth tax' is used as a derogatory term, the truth is that voters and politicians alike prefer stealth taxes like SDLT to visible taxes like Council Tax.

SDLT is a crude LVT payable in advance (in the same way as IHT is crude LVT payable in arrears). On average, homes in London are bought and sold every fifteen years triggering SDLT as shown in the table above. If the annualised SDLT is added to current Council Tax bills and TV licence, then the true amount payable is barely changed. The LVT rate could easily be tweaked so that the two curves match even more closely:



A subsequent purchaser of a home will be entirely unaffected by the change, as the net present value of a large amount of SDLT up front plus recurring small annual payments of Council Tax is much the same as the net present value of £zero SDLT plus recurring higher LVT payments. The price the subsequent purchaser of the home will adjust up or down accordingly.

Many of the fifty percent of Londoners who own their own homes and the private landlords who own a quarter will spit feathers that their annual tax bill has doubled, trebled or risen ten fold.

But the LVT will still not be particularly high:

- London Council Tax is very low compared to the rest of the UK. A £500,000 home in London is probably in Band C, with Council Tax around £1,000 a year. A £500,000 home in Leeds is probably in Band H, with Council Tax of £2,737. A London LVT would level this playing field, while preserving the SDLT savings.

- There is quite a cliff edge at the border of Greater London, For example, on the Central Line, a terraced house in Zone 4 is in Council Tax Band C or D an the tax is about 0.25% of the selling price. In Zone 5, a house costing the same is in Band F or G has a Council Tax bill of around 0.5% of the selling price.

- The LVT will only be a small fraction of the amount of rent that private tenants have to pay. The average private tenant household currently pays rent and Council Tax of £19,000 a year and they will still be paying a lot more than the owner of a £2 million-plus home pays in LVT for the privilege of living in London.

- The LVT will only be a small fraction of people's total tax bills. A couple on average London salaries of £40,000[19] each are paying £19,000 in PAYE in total and are bearing stealth taxes (Employer's NIC and VAT) of another £17,000, total £36,000. This is ten times as much as the LVT on a home in the seventh or eight deciles.

- As a percentage of values, the LVT will be more in line with property taxes paid on homes in most other comparable world cities or city-states, such as New York, Tokyo, Hong Kong, Singapore, Zürich or Bern. But unlike those other countries, buying a home in London would not trigger any acquisition tax such as SDLT and they would be exempt from UK Inheritance Tax.

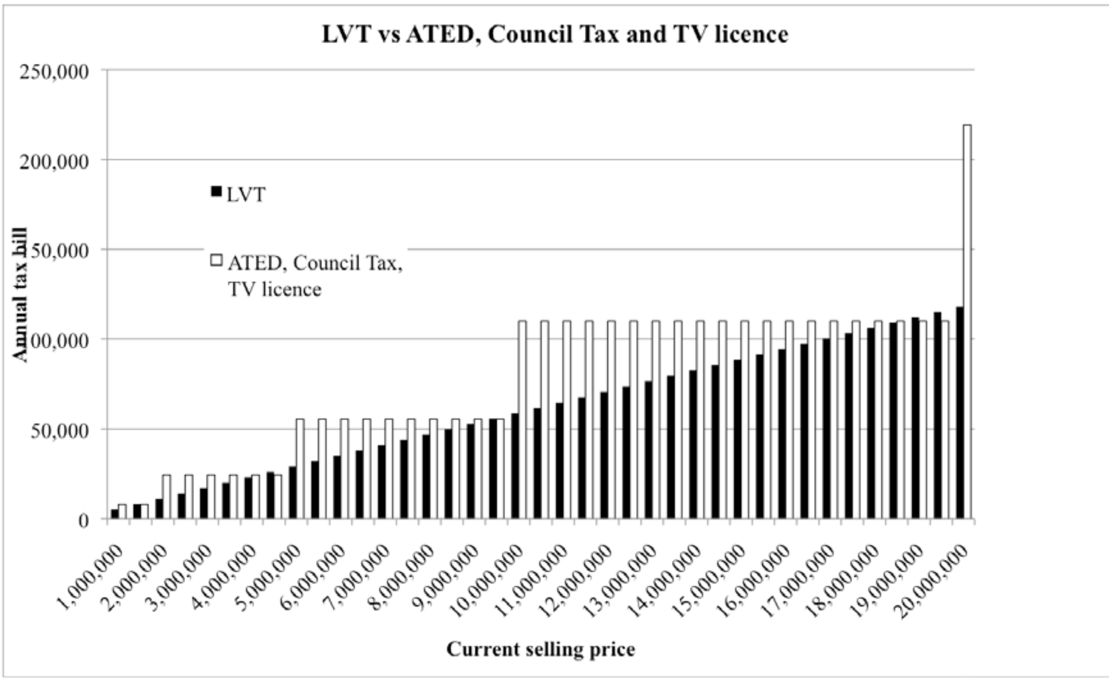
[19] http://www.standard.co.uk/business/falling-banker-bonuses-drag-average-london-salaries-down-to-40000-a3117461.html

Appendix 3: The Annual Tax on Enveloped Dwellings

The ATED (which broadly speaking is only paid by wealthy foreigners) is as follows for 2015-16. A new lower band for £500,000 to £1 million is to be introduced next year:

Property value	Annual charge	Effective rate
More than £1 million but not more than £2 million	£7,000	0.7% - 0.4%
More than £2 million but not more than £5 million	£23,350	1.2% - 0.5%
More than £5 million but not more than £10 million	£54,450	1.1% - 0.5%
More than £10 million but not more than £20 million	£109,050	1.1% - 0.5%
More than £20 million	£218,200	1.1% -…

The LVT compares favourably with those rates, benefitting everybody in the lower part of each band:



The ATED was introduced in 2013 by the Conservative-Lib Dem coalition. We can only assume that this was a dry run for the implementation of a 'Mansion Tax' and was the price that wealthy non-domiciles have to pay to obscure ownership and to some extent avoid Inheritance Tax and SDLT. Actual revenues are more than twice as much as initially expected, because it turned out that wealthy non-domiciles are happy to pay it – the tax is comparable with taxes on expensive housing in New York or Tokyo etc.

The tax had no effect on the market in 'Prime London'. What did affect that market adversely in terms of turnover and pushed down prices significantly was the introduction of the penal 12% SDLT rate in December 2014.

Appendix 4: Ownership

From the scoping paper:

- *Landownership must be established, as LVT is levied on land owners, not occupiers*

This is like saying "We can't impose income tax because some people work cash in hand" and is one of many smokescreens put up by those who oppose LVT. It is only in the rare cases of non-payment that the issue even needs to be addressed.

LVT is not "levied on landowners" - it is a charge on the land title.

Ninety-nine percent of land titles in London are registered to a named owner anyway and the one-quarter of homes in London that are social housing have a named tenant; two-thirds of privately owned homes are owner-occupied. Many private landlords receive Housing Benefit and all should be reporting their income for tax purposes.

Collection rates for Council Tax and Business Rates are close to 100%, even though they are collected from the occupant and not from the owner. So a landlord is not liable if his tenants fail to pay Council Tax.

The existing systems of administration and collection of Council Tax and Business Rates can be retained and adapted to collect the proposed LVT. The pecking order in Section 6 LGFA 1992 and Section 43 LGFA 1988 will be amended to make it clear that in the event of non-payment, the freehold owner is primarily liable to pay *unless* it is subject to a long leasehold at a small ground rent *and unless* the current occupant agrees to pay. There is no need to even refer to it as "Land Value Tax". We could continue to refer to 'Council Tax' and 'Business Rates'; it is just that the amounts payable will change.

It will soon become common knowledge that if there are significant arrears of LVT charged on the few remaining parcels of unregistered land, they will be recovered by the local council taking control of the land as 'mortgagee in possession' under existing law, so owners will simply pay up to avoid the hassle.

Where there are joint owners, they will be jointly and severally liable to pay the tax, how it is split up between themselves is up to private agreement the same as any private agreement between joint owners on who is responsible for paying the mortgage or for the upkeep.

Where there is a freehold with a leasehold and sub-leaseholds, the LVT on the lowest sub-leasehold – the one which gives an immediate right to possession/occupation - will be calculated on the basis of the site premium minus any rents or ground rents payable up to the superior leaseholder; he pays LVT on the ground rents he receives less ground rents payable to the next higher interest and so on, with the ultimate freeholder paying LVT on his ground rent income.

Appendix 5: Valuations of individual plots

From the scoping paper:

- *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 such as residential, commercial or social as the most optimal use for the site.*

For nearly all developed sites, we can safely assume that the actual use is the optimum permitted use. London is a glorious jumble of all different types of buildings used for all manner of different things, interspersed with green spaces, roads, railways and waterways. By and large the mix is 'about right'.

- Commercial premises

The assessments for Business Rates can be very, very detailed indeed and are estimates of the total rental value based on square feet of internal space, split up into shop front, storage, office space etc. This system can easily be adapted for LVT purposes.

The first step is to find out current market rents values for as many premises as possible, which will have to be done for the 2017 Business Rates revaluation anyway. Over half of business premises are rented on an arm's length basis[20] and the rental value of owner-occupied business premises is the same as neighbouring rented ones. Business Rates are currently payable by the occupant in addition to the rent, so we have added them to the rent payable to the landlord in calculating total rental values.

The construction cost of one square foot of office space in London is £212 per square foot[21], so a normal return of 6.5% thereon is £14 per square foot. Any rent in excess of £14 per square foot is site premium and would be liable to LVT.

The concept is no different to the old Industrial Buildings Allowances. The owner of a building could deduct 4% of the construction cost from the rental income for tax purposes for the first 25 years – so only the site premium was liable to corporation tax or income tax. With LVT, the deduction will be in perpetuity.

- Residential

Housing is much more homogeneous than commercial premises so most homes can be assessed by using local average values and banding.

The fiscally neutral tax rate would be only 16.5%, so valuations do not have to be particularly accurate in absolute terms as long as they are done fairly and consistently.

[20] http://www.bpf.org.uk/sites/default/files/resources/PIA-Property-Data-Report-2015-single.pdf
[21] http://www.constructionenquirer.com/2015/07/01/building-costs-in-london-now-second-highest-in-world/

At present, Council Tax is set at the same rate for the whole of each London Borough. We would prefer it if each borough were sub-divided into several valuation areas, such as postcode districts or even postcode sectors or local council wards.

A slightly more sophisticated approach might be required for the exceptionally expensive areas in prime central London, but for the outer boroughs the revaluations require two steps:

Step 1

Allocate all homes into a Council Tax band by relative size (of plot or of building) not value. This can be done consistently for all outer boroughs.

For example:
Band A - 4.5/9 or 50% - Studio flats (automatic single-person's discount)
Band A - 6/9 - One-bedroom flats
Band B - 7/9 or 78% - Two-bedroom flats; small terraced houses
Band C - 8/9 or 89% - Three-bedroom flats; medium sized terraced houses; small semi-detached houses
Band D - 9/9 or 100% - Large terraced houses; three-bed semi-detached houses
Band E - 11/9 or 122% - Larger semi-detached houses; smaller detached houses
Band F - 13/9 or 144% - ‘Normal’ detached houses
Band G - 15/9 or 167% - Large detached houses
Band H - 18/9 or 200% - Very large detached houses

The expense of all this will be minimal. The Communities Secretary admitted some years ago that a full Council Tax revaluation would only cost about £10 per home. Doing the above exercise would cost pennies per home and most of the required data is already held on Council Tax registers or by HM Land Registry.

Step 2

For each smaller valuation area, all we need to know is the typical average rent for homes in as many categories as possible, and rents can be estimated quite accurately by multiplying recent selling prices by 3.6%. We add on the Council Tax and TV licence fee currently payable by the occupant and subtract the bricks and mortar rent (£4,000 for a normal three-bed semi-detached) to arrive at the site premium.

These site premiums can be plugged back into the above table and smoothed accordingly to generate the assessable site premium of homes in each band in each area.

For example, if the average rent for a semi-detached in an area is £1,500 a month, the gross rental value incl. Council Tax and TV licence is £19,250, minus £4,000 bricks and mortar rent = £15,250 site premium. The LVT rate is 16.5% so the tax on all Band D homes in that same area is £2,516.

This represents a Band D bill (9/9), so the tax on Band A homes (4.5/9 or 6/9) is £1,257 or £1,677; the tax on Band B homes (7/9) is £1,957 and so on.

- Undeveloped land

See Appendix 6.

- A harmonised valuation system regardless of actual use

Some areas of London are clearly purely residential; others are clearly purely retail; some are purely offices and so on. But most high streets are a jumble of houses, blocks of flats, shops with flats above, office blocks, undeveloped and underdeveloped sites, petrol stations and lock-up garages. Ultimately it would make more sense to average out the rental values of all sites on such a high street and levy the same LVT on all of them.

<u>Appendix 6: Taxes on undeveloped land and development</u>

Please note: the figures in this Appendix are all best estimates to illustrate the general principles.

The long run average revenues from The Community Infrastructure Levy and Section 106 are £250 million a year[22] and 20,000 new homes are sold each year for £450,000 each @ £12,500 SDLT each = £250 million, total £500 million.

Two-thirds of the surface area of Greater London is developable land i.e. not roads, parks or waterways and 5% of that area is not yet developed = 13,000 acres. This is a reasonable figure – multiplied by average housing density of 18 units per acre, this means that there is sufficient land for 234,000 new homes or supply for ten to fifteen years or a corresponding amount of new commercial premises, schools or hospitals.

£500 million divided by 13,000 acres = an average of £39,000 per acre. Average housing density in London is 18 homes per acre, so the tax would be £2,000 per potential home per year, much the same as the amount calculated for a median terraced home in Appendix 1.

Clearly, residential land values vary widely, from from £3 million in Havering to £40 million in K&C, Westminster and the City Of London[23], so the charge would have to be graded accordingly. It would average out at 0.5% of selling prices.

- The tax charged would align itself with the rate on surrounding developed sites.

This is because what a developer is prepared to pay for a site is his own estimate of the site premium of the finished buildings. As explained in Appendix 7, developers work on the basis that the selling price of the finished units less construction costs =

[22] http://www.futureoflondon.org.uk/futureoflondon/wp-content/uploads/2010/09/Community-Infrastructure-Levy.pdf

[23] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/407155/February_2015_Land_value_publication_FINAL.pdf

purchase price of the site, but selling prices are a function of rental values so mathematically it comes to the same thing.

- Undeveloped sites, derelict and vacant buildings and chronically underdeveloped sites such as the single-storey shed on a 0.6-acre site in Peckham[24] can easily be identified.

To prevent local councils getting 'money for nothing' and to encourage them to speed up planning decisions, the tax could be abated during the period when a planning application is being considered. The 0.6 acres in Peckham could be - and probably will be - used to build eight townhouses at a typical density for the area, so the tax bill, once planning permission is granted will simply be eight times the tax on a Band C or D townhouse.

There has to be some protection for older people who have been living in a home on a plot with great planning potential for years and wish to remain there for the rest of their lives. In this case, outline planning permission would be granted pending the next sale of the property, which would then trigger the higher tax. This is the same principle as with Council Tax. If you add a significant extension, your Council Tax bill does not change immediately, it does not go up a Band until the next time the home is sold.

- The only – and we mean the only - valid point made in London First's letter of 2 November[25] is this:

In London, most of the larger brownfield and underutilised sites prime for development are within public land ownership e.g. TfL, NHS, Council owned sites. Unblocking the constraints to the delivery of these sites would be a much 'easier win' and deliver housing development earlier than an LVT system.

We agree.

These sites could and should be used for social housing or other buildings in public ownership, or councils could invite construction companies to do the building in exchange for a share of future rental income with the bulk of the rental income going to TfL, the NHS or London councils. How much "tax" in the narrow sense this generates is largely irrelevant – the point is that a small part of the site premium would be collected for public purposes.

[24] http://www.mirror.co.uk/news/uk-news/dilapidated-shed-peckham-sells-nearly-6769514
[25] http://londonfirst.co.uk/wp-content/uploads/2015/11/London-First-Land-Value-Tax-Letter-02.11.2015.pdf

Appendix 7: The Developer's Decisions

Building and construction are highly specialised and technical areas. But the developer's two most important decisions are easy to understand and are basic economics.

- First decision: What to build and how much of it

Nine times out of ten, the best thing to build on any site is exactly the same as whatever is on surrounding sites and up to the maximum permitted by the local authority, which is usually in line with densities on surrounding sites. He would be stupid to build a family terraced house or a factory unit on Oxford Street or a gleaming skyscraper office block in Wimbledon or Dagenham.

Developers will usually want to build as much as possible, which is dictated by the upper limits in the London Assembly's London Plan[26]. Permissible densities range from 150 habitable rooms per hectare in Suburban locations with a low Public Transport Accessibility Level (PTAL) up to 1,100 in Central locations.

- Second decision: How much to bid for the site

The developer deducts his estimates of construction and interest costs and profit margin from his estimate of the selling price of the finished units – the balancing figure is what he or another developer will pay for the site.

For example, a site is suitable for a detached house. If detached houses in the area sell for £750,000, cost £200,000 to build and the developer wants to earn a profit (i.e. his wages and reward for risk) of £50,000, he will pay up to £500,000 for the site.

However high the tax is, the developer is unaffected. If the LVT on that site is the same as the LVT on the finished house, £4,000 a year and he estimates that the project will take two years to completion, he will simply adjust the amount he pays for the land down to £492,000.

- A real life example

The author, in his professional capacity, was helping a client sell a 0.8-acre site in a PTAL area 4-6 ten years ago which was ideally suited for housing. We knew that the selling price of a flat minus construction costs i.e. the value of the land was around £50,000. The permissible density at the time meant that 80 flats could be build on the site, so we had provisionally agreed a price of £4 million (80 flats x £50,000). During negotiations, the London Plan was revised and the new limit was 100 flats. The developer had no problem increasing his bid to £5 million accordingly.

[26] http://legacy.london.gov.uk/thelondonplan/maps-diagrams/map-2a-03.jsp

Appendix 8: Agglomeration benefits[27]

The focus of your call for evidence is to boost supply to tackle affordability issues as if the latter would flow directly from the former. Unfortunately this is not the case.

The real question is, why are London rents and house prices so high in the first place? Let's look at this from the point of view of new arrivals, the fuel that keeps London burning. One third of UK students move to or stay in London after graduating[28]; half of London residents of working age have a university degree, over half the current population of London was born outside London and half of all immigrants to the UK settle in London (and the south east)[29].

In economic terms they are all migrants, whether they from a few hundred miles away in Scotland or in France; whether they arrive directly from Africa or via the West Indies. (The author of this report is one such migrant, having grown up in West Yorkshire and lived and worked in Munich for a decade before moving to London in the 1990s.)

What are these people paying for? They are paying to be near people like themselves. Higher education levels means higher productivity; higher productivity means higher wages; higher wages attract the brightest and best; a large pool of 'talent' attracts more businesses; a higher population density make investment in public transport infrastructure much more worth while; this increases work and leisure opportunities; attracting yet more migrants and businesses and so on.

Appendix 9: Supply and demand in the land/housing market

The simplistic view is that high London prices and rents are down to an imbalance between supply and demand. This rule does not apply to housing (or location values) as demand will increase to match any increase in supply, and because of agglomeration benefits, demand (in terms of the surplus available to go into rents and prices) will always increase slightly faster than supply.

Common sense tells us this: Scotland[30] has fifty times the surface areas of Greater London[31] but only two-thirds of London's population or housing stock, all much more widely dispersed. Which is why the average London house price is over three times as high as in Scotland[32].

So our recent graduate or migrant willing to move within or to the UK will prefer to move to London because net wages are on average £8,000 higher than in the rest of

[27] https://en.wikipedia.org/wiki/Economies_of_agglomeration
[28] http://www.dailymail.co.uk/news/article-2546507/How-London-brain-drain-harming-regions-Report-shows-graduates-flock-capital-work-never-return-home.html
[29] http://www.theguardian.com/uk-news/2015/mar/06/london-south-east-foreign-born-england-residents-oxford-university-migration-observatory
[30] https://en.wikipedia.org/wiki/Scotland
[31] https://en.wikipedia.org/wiki/Greater_London
[32] http://www.nationwide.co.uk/~/media/MainSite/documents/about/house-price-index/Sep-Q3-2015.pdf

the UK[33], up to the point where the additional rent they have to pay does not swallow up all the extra wages they hope to earn - so London rents are also around £8,000 higher than in the rest of the UK.[34]

What this means is that those lucky enough to already own land in London are the prime beneficiaries of agglomeration, and in particular those who can cash in with more generous planning permission.

Appendix 10: Ability to pay

'The Poor Widow In A Mansion', as lampooned by Winston Churchill over a century ago. All sensible LVT proposals allow elderly owner-occupiers on low incomes to defer and roll up LVT if it exceeds a certain percentage of their income, which would crystallize and become payable when they die or the next time land is sold.

Average pension income per pensioner household less income tax is in the order of £20,000, so for most, the LVT would be one-fifth or less of their current income.

Truly poor pensioners are more likely to be in social housing, as are low-income tenant households, who can be dealt with as a separate category.

Appendix 11: Low-income tenant households

Around one-quarter of London households are tenants in the social sector (council or Housing Association housing), paying below market rents.

There is a large overlap between low-income households and households in the social sector. Many are entitled to a Council Tax Reduction (the localised replacement for Council Tax Benefit0 or Local Housing Allowance (the localised replacement for Housing Benefit).

Although the rules vary between boroughs, these two benefits are means-tested, so a no-income household on benefits pays little or nothing, and the overall effect is that for every extra £1 a social tenant earns, he loses 20p – 30p of reliefs and so pays an additional 20 - 30p in net rent or Council Tax. This causes a huge administrative burden and there is a lot of fraud and error in both directions.

It would make far more sense for councils and Housing Associations to charge rents inclusive of LVT (or Council Tax) and for the two reliefs to be merged in onto a single system. The entire notion of reliefs could be abolished if low-income social tenants were made to pay 25% of their earned income in rent, which can easily be achieved by adjusting people's PAYE codes to a K code or a DO code.

[33] http://data.london.gov.uk/dataset/household-income-estimates-small-areas/resource/5d6bcb68-e75b-4da8-a8dc-5812a8d4bd5a#
[34] http://homelet.co.uk/assets/documents/HL4069-August-2015-HomeLet-Rental-Index-03-09-15-Final.pdf

Appendix 12: Impact on selling prices

The low level LVT suggested in this submission would have no measureable impact on selling prices because it is fiscally neutral.

- SDLT pushes selling prices down by the amount of the tax charged. Because a purchaser knows that the selling price will be pushed down again when he comes to sell in future, it is possible that SDLT pushes down selling prices by more than the amount triggered on a transaction. So scrapping SDLT will significantly increase selling prices and turnover.

- Annual taxes like Council Tax or LVT are capitalized into lower selling prices, so every £1 tax pushes down selling prices by around £30 at current yields and interest rates.

- An Inheritance Tax exemption makes an asset more attractive to investors so they are prepared to accept a lower annual return. In other words, pay higher prices. The IHT exemption for farmland has pushed yields down to 2% and prices up accordingly. We do not know what the precise effect of this would be. If investors are prepared to invest in housing liable to IHT for a gross yield of 3.6% but would be happy with 3% from IHT-exempt housing, then this would push up prices by twenty percent.

These impacts, positive and negative will be weaker at the lower end of the market and stronger at the upper end, but in all deciles they will more or less cancel out.

Underlying this is the long-term trend of London house prices, which have been rising by 8% a year compound since the end of rent controls and the introduction of low-interest buy-to-let mortgages.

Submission by John Cormack, 6 September 2015

Dear Mr Copley

I am supplying my written views to assist in the preparation of the rapporteurship which I hope will lead to further devolution of powers to London

1. Cases for and against introducing a Location Value "Tax" in London are the same as for elsewhere

- It encourages the optimal use of land sites by acting as a levy (incurred regardless of the amount of labour and capital invested on those sites)
- It imposes costs on holding undeveloped or underdeveloped sites
- It captures for the communal benefit the results of public investment in infrastructure and increasing population (which increases trade)
- It discourages speculation in community created location values by extracting future benefits for the community (rather than individual landlords and tenants benefitting from public infrastructure expenditure unrelated to their individual efforts)
- It will accelerate the access of sites on which to build employment spaces, new homes and supporting infrastructure - particularly due to changes in marginal activities
- there are no arguments against its introduction unless it is levied "on top of" other taxes, such as not only Council Tax or UBR, for example, but also income tax, National Insurance and value added taxes, which affect marginal businesses (in which case it will be less effective and more oppressive)

2. How should a location value tax be designed to work optimally in London?

It should apply to all locations to avoid anomalies or unfairness. However, it may be conceded that purely agricultural locations have little or no Location value, due to the majority of their value being in man made improvements to the land (rather than the land itself) so they may be ignored as immaterial in the context of tax proceeds.

However, it is essential that farmhouses are treated identically with other residential land as being more material (and that governmental sites such as Whitehall, the old County Hall and the new Assembly Hall are included with private sites for assessment and contribution).

Land location values should be contained in an IT model for comparability and should be assessed primarily with reference to estate agents (and chartered surveyors) who, particularly in London, have much knowledge of both market and location values (and rebuilding costs).

Self-assessment should not be ruled out, especially for office blocks and residential properties, whose owners/tenants have a good idea of the combined market values of their properties, and the fire insurance value for rebuilding only. By taking the difference between the two values an approximation of the location value only is obtained; to which may be applied a notional interest rate say 2% at present for the annual value. With increasing interest rates in the future the combined market value will fall, or at least stabilise, so that a higher interest rate may be applied to the self-assessment.

For the purpose of equity, these self-assessed values should be compared with other similar locations and rationalised over time. Initially, absolute precision in measurements is not essential; only fairness in treating like with like is essential. Over time, these measurements will improve and, even an approximate estimation will suffice to achieve the desired ends in 1 above and 3 below.

3. What effect would a location value levy have on bringing forward land for development and preventing the hoarding of sites?

Provided that the levy is not double taxation, it will achieve these desired effects as outlined in 1 above, without any necessary assistance from any other mechanisms other than tax reductions, for bringing forward sites for development to accommodate the population growth.

London is a microcosm of the world due to its advanced technology and large population giving extreme opportunities for specialisation and trade in varying locations which have tiers of location values in each speciality from highly supra-marginal to marginal businesses.
With lowering of taxation, marginal businesses become supra-marginal, and non-existent sub-marginal businesses have the potential to become marginal thus encouraging employment and development in London.

A huge opportunity will be missed here if, at the same time, all other sorts of taxation are not reduced to give a real feel good factor, as well as enhancing the very location values that are substituting for the reductions in taxation.

Yours sincerely

John Cormack

6 September 2015