# Submission by the Coalition for Economic Justice (CEJ) to the Commission on Local Tax Reform in Scotland

### <u>Introduction</u>

The CEJ came into being in 2008 as a result of the economic crisis. The CEJ consists of a number of organisations across the political spectrum together with charities and faith groups, all of whom are committed to working for the establishment of a taxation system based on sound principles which will encourage an enterprise economy. We are therefore committed to working for an annual Land Value Tax (LVT) instead of inappropriate taxes. Our web-site is www.c4ej.com.

As the classical economists, including Ricardo and Adam Smith, proclaimed, taxes should: bear as lightly as possible on production; be cheap and easy to collect; be difficult to avoid; and bear equitably on taxpayers giving each no unfair advantage or disadvantage. LVT meets all these principles.

We recognise that the Scottish government is considering land reform but not, in our view, on a fundamental basis. This paper concentrates on the economic value of land. Land is given by nature and its supply is fixed. However, the value of each site varies according to its natural attributes, its location and the permitted use set by the planning authority. The value of land is created by the community, not by the owners of land.

#### Our approach

The Commission is required to deliver a fairer system to support the funding of services delivered by local government. In our view this has to be a switch from taxes on production and trade to an annual LVT.

We note that the Commission is requested to advise on alternatives to council tax but our concern is that council tax provides funding for only 20% of local government finance in Scotland. We are therefore disappointed that the Commission is not tasked with considering alternatives to non-domestic business rates.

On the principle of subsidiarity local authorities should have more power to enable them to provide the services needed by their communities. Devolution to Scotland should be followed by devolution of powers to local authorities. This must mean greater fiscal freedoms for local authorities commensurate with their responsibilities so they have more control of the revenue needed to provide housing, infrastructure, social services, rubbish collection, libraries, etc. etc. Again, the limitations in this regard weaken the role the Commission can play.

We ask the Commission to give particular attention to the reports produced by Glasgow City Council's Local Taxation Working Group in 2009. In its consideration of the fairness, efficiency, predictability and local accountability criteria LVT came highest together with a local property tax

or a combination of this with LVT. It showed that LVT had a number of key benefits in that it is more progressive than council tax, it would be simple to translate from the systems and valuation expertise used by councils, has macro-economic benefits, revaluations are relatively straightforward, is buoyant but retains the balance of stability and predictability and, most importantly, provides for best land use, development of derelict and brownfield sites and prevention of urban sprawl and land banking. This is because the land is valued at the optimum permitted use set by the planning authority for each site. With LVT there would be no need for bandings which builds in levels of unfairness. Within its considerations Glasgow's tax working group carried out a pilot study on a ward with a mix of residential, commercial and industrial units which showed that the introduction of LVT was feasible.

The Commission should note that these advantages apply especially if LVT were to replace non-domestic rates. The Mirrlees report recommended that non-domestic rates should be replaced by a land value tax. This would be of particular benefit to small and medium size businesses, most of whom rent their property. Taken together with replacing council tax LVT would be more effective, given that the macro-economic effects would be greater and would encourage better use of land and empty buildings and also deter speculation in land.

## Steps towards implementation

There are stages needed to implement LVT. Firstly, there is the registration of all land ownership. Given that nearly 80 % of land is already registered this should not be a problem. Owners of unregistered land should be advised by public advertisement and other means to register for tax purposes. Secondly, all parcels of land need to be valued according to its optimum permitted use. Modern technology makes this a straightforward exercise. Indeed, it is simpler to value land than value buildings.

The Commission should therefore request the Scottish government to instruct the Scottish Land Registry to work towards establishing a complete register of land ownership. Likewise, the Scottish Valuation Agency should be instructed to establish land valuations across the country.

#### Conclusion

The Scottish government and parliament should recognise that the Commission offers a unique opportunity to start the necessary work of making our long failing taxation system more effective and fairer. With the introduction of LVT there is a recognition that a change to providing the economic rent from land for government revenue by reducing or removing inappropriate taxes begins the work of reducing taxes on production and getting rid of speculation in land. Taxes on production and trade have over many decades - indeed much longer - helped to create our unequal society. Scotland can show the way to the rest of the UK and, indeed, the wider world.