Submission to the Commission on Local Tax Reform

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The Council Tax (CT) was introduced in some haste following the Poll Tax debacle 25 years ago. It is remarkable that after 16 years of the Scottish Parliament, which has always had the powers to replace it, the CT has survived. The Commission on Local Tax Reform initiative is therefore to be welcomed.

The CT has numerous flaws, such as:

- By including buildings in the valuation, CT rewards land hoarding and neglect of property, while penalising legitimate development and improvements. The exemption system encourages non-use or under-use of land and buildings.
- Valuation is ridiculously out of date, with even new buildings valued on the basis of 1991 figures.
- The banding system, even if updated to reflect current market prices, is too broad-brush and arbitrary. Yet updating it now would precipitate a flood of disputes at the band thresholds.
- Tenants in effect pay twice. A landlord bases his rent partly on location value, which is heavily dependent on local infrastructure, amenities and services. The tenant then has to pay the CT towards funding these provisions.

The system should be reformed to exclude the value of buildings. It should be based on land values alone, and payable by the landowner. This system is variously known as Land Value Taxation, Site Value Rating, or perhaps preferably, Land Value Rating (LVR).

The case for Land Value Rating

The moral argument for LVR is straightforward and indisputable. Land was not man-made so there was no production cost borne by the titleholder or his predecessors. Land value is simply a measure of the level of public demand for particular locations, but further enhanced by the provision of publicly-funded infrastructure and services. It is purely a publicly-generated value and it ought to be recycled into the public purse to be used as public revenue.

Land Value Rating would involve:

- The annual payment by the owner of a sum based on the economic rental value of the land. It would apply to all land parcels, large or small, rural or urban.
- It would be charged on the value of the land alone, and would exclude the value of buildings and other man-made improvements on the land.
- Valuation would be based on optimum permitted use within prevailing planning and environmental constraints.

Some of the implications would be:

- The benefits accruing from community-generated land values would flow into the public purse rather than into private pockets. Investment in services and infrastructure that drive up land values would be recycled back into the public purse.

- It would penalise and therefore discourage the holding of land as an investment or as an indulgence. Land hoarding would become expensive and pointless, and speculative values would collapse.
- It would penalise and therefore discourage dereliction. Land held deliberately out of its designated use would incur the same charge as if it were in use. Permitted development of available land within existing urban areas would therefore be encouraged, relieving the pressure of sprawl into rural areas.
- The temptation to manipulate the planning system for personal profit would be reduced as the enhanced value from planning permission would be captured for the public purse rather than by landowners/developers.
- Assessment would be simpler than the CT which is supposedly based on the composite value of the land and buildings. For LVR it could be done largely from maps. The skills for valuation already exist within the surveying/estate agency professions.
- Avoidance and evasion would be virtually impossible – you cannot hide land, disguise its value or move it offshore.
- It would apply universally to all land and all landholders, so could not be portrayed as selective, arbitrary, divisive or vindictive.

Practicalities

There have been several recent studies into the feasibility of shifting to a system of LVR/LVT, notably:

Andy Wightman's study for the Green Party:
http://www.andywightman.com/docs/LVTREPORT.pdf
Glasgow City Council Pilot Study:
http://www.andywightman.com/docs/Glasgow_LVT.pdf
Oxfordshire (Vale of White Horse) Pilot Study:
http://www.andywightman.com/docs/oxfordshire_study.pdf

The Glasgow study concluded that ***"databases, systems and controls are in place"*** and stated ***"We have therefore not identified any insurmountable problems from a practitioner's perspective in introducing a LVT."*** (Sections 3.10 & 3.11). The Oxfordshire study was similarly confident.

The broader view

The Commission's remit states that it will consider "***The revenue raising capacity of the alternatives at both local authority and* national *levels".***

The word "national" in this statement presumably is to be taken on face value. If so, the tax powers proposed by the Smith Commission and incorporated into the Scotland Bill have to be considered. Regardless of whether or not Scotland achieves full fiscal autonomy, control over income tax rates and bands offers a glorious opportunity to shed much of the deadweight burden that is inherent in taxes on earned incomes. **Using land values as an alternative source of revenue, income tax rates could be slashed to a degree that is currently unimaginable.**

Tax reform and Land reform – the synthesis

Land reform was one of the first issues to be dealt with by the Scottish Parliament. The flagship policy was the Community Right-to-Buy (CRtB) which largely ducked the issue of urban land where the vast majority of the population live and work, and where land values can be many thousands of times greater than those of some rural land. Yet even in the targeted rural areas it has failed to live up to its promise to ***"effect rapid change in the pattern of landownership".*** The reality is that CRtB can only scratch the surface of the problem of Scotland's concentrated pattern of landownership by throwing public money at it. This flow of money should be reversed.

Land monopoly is at its most intense in the urban heartlands where land values are so high that the Scottish Land Fund could never realistically make any significant impact, even if physical re-allocation of land were to be considered a desirable strategy. The economic rent of this land is a vast source of untapped public revenue, currently allowed to haemorrhage into private pockets. **We do not need bureaucratically-assisted redistribution of land parcels; we do not need land nationalisation; we simply need to socialise the rental value of all land.**

The SNP's Land Reform Review Group produced its report in May 2014, and among its recommendations was: ***"The Review Group considers that local government taxation in Scotland needs to be modernised and that Land Value Taxation should be given serious consideration as an option. The Group recommends that there should be a detailed study of the scope and practicalities of introducing Land Value Taxation".***

That study needs to bring together those dealing with land reform and those dealing with tax reform. The connection needs to be made!