



The Labour Land Campaign

www.labourland.org

Submission to the Commission on Local Tax Reform from the Labour Land Campaign

1. Background

Current taxes have been introduced over many centuries and in a haphazard way. The earliest taxes were levied solely on land value and gradually our Parliament (dominated by land owners) then shifted taxation off land value and on to trade, production and wages. The Commission on Local Tax Reform ('the Commission') gives a real opportunity for Scottish politicians, residents and businesses to consider what is currently taxed; what the benefits and disbenefits are and to explore an innovative, more efficient and fairer tax system – and to educate the rest of the UK in the process.

The Labour Land Campaign (LLC) argues that current local, regional and national taxes are inefficient, distort behaviour and are often avoided or evaded. Consequently, they tend to damage the economy, discourage good investment, penalise work, and skew the economy in such a way that it actually creates unfair advantage to rich individuals, global corporations and those who claim ownership of land and other natural resources. Local taxes should empower local communities by providing a sustainable income sufficient to maintain and develop local services that meet individual and community needs. We argue that this can best be achieved by replacing all current local taxes including Council Tax and Business Rates with an annual Land Value Tax on **all** land including urban land, farm land, forests and sporting estates. We also argue that Scotland's economy would be stronger, fairer and more secure if all taxes were to be replaced totally or in part by an annual Land Value Tax. We consider that taxes on other natural resource rents, particularly oil, the radio spectrum and airport landing slots, should also be collected.

- Council Tax is not fair because people in lower value homes pay proportionately more than those in higher value homes.
- Business Rates fall most heavily on owners of well maintained, well insulated and architecturally attractive buildings and are avoided by those who leave their buildings empty or leave development sites idle - in some cases for decades.
- The Land and Buildings Transaction Tax is not efficient or fair as it only collects a small proportion of land and building value at the time of sale hence properties that change hands regularly pay much more than properties in static ownership. By its very nature, the Land and Buildings Transaction Tax actually discourages trading in properties, discourages the better use of properties, destroys value for both buyers and sellers, and so discourages beneficial economic activity.
- Any proposed local Income Tax scheme could not be fair or beneficial to the people or businesses of Scotland because it would institute an additional layer of complexity, discourage employment and as our national Income Tax scheme shows, would be complex and expensive to collect, and can be avoided or evaded (especially those on higher incomes).

- Income Tax is often avoided or evaded and can deter people from enhancing their income (by working overtime or in other economic activity) if this means they pay more tax or a higher rate of tax.
- Value Added Tax (VAT), local sales taxes, and Employers National Insurance are a deadweight cost for employers and can easily be avoided or evaded by employing fewer workers, selling fewer goods or services¹ and operating in the cash economy.
- Corporation tax can be avoided particularly by global enterprises using the tax advantages of one country and setting up subsidiary companies – an option not open to local businesses (however well run).
- Land speculation is encouraged by the present tax system which leads to higher land prices for homes and business premises.

2. How does land value arise?

Land value arises from society's combined demand for its use for homes, public services, infrastructure, business, farming, leisure, and so on. As demand for land increases, so the value and the price of land rises. For existing property owners, this increase in value provides an unearned increase in the value of their property but for tenants, an increase in land value means an increase in their rent. This disadvantages tenants (whether residential, commercial or farming) as they are also taxpayers, consumers and investors, contributing to the creation of land value.

The amount we are prepared to pay for a site will depend on our ability to pay either rent to a landlord or the freehold of the site or a mix of both when buying a lease.

There are two elements to a property's value – firstly, the value of the building, which will vary according to the state of the building, its size etc - and secondly, the site's value ('Land Value'), which will vary according to its location. A property in Edinburgh will have a higher value to an identical property located in East Ayrshire, because residents and businesses gain extra benefit from locating in Edinburgh, and so are prepared to pay more. This arises because of easier and greater access to Edinburgh's public services, business activities, public transport (including international links), tourist attractions, the Scottish Parliament and so on.

For residential properties, the amount we can afford to pay depends on our current and future expected incomes and (if buying) the availability of mortgages; for any business it is the amount of income we expect to receive after all costs of production are paid. While landowners may claim ownership of this natural resource, they do not create the land value they claim as theirs – that is down to workers and businesses, taxpayers, consumers and investors.

The oil and gas industry in Aberdeen since the 1970s has had a tremendous impact on Aberdeen's land values as shown, for example, in rapid house price rises. The rise was due to an increased demand for land for more homes, businesses, schools, health care provision, and the like, as well as land needed for the oil and gas industry.

3. Why should land value be taxed?

Scottish history is full of examples of how today's land ownership has come about: land theft by English and Scottish 'noble' families; the Highland clearances and today's land speculators, including the wealthy acquiring farms and forests to avoid UK taxes. However, this paper is concerned only with the ownership and sharing of today's land value in a fair and moral way.

¹ Reducing sales and services may sound counter intuitive but is exactly what small businesses do (quite legally and rationally) in areas with seasonal trade when they close in off-peak times to avoid tipping over into the VAT threshold. They close up, sack staff and potential customers lose a product or service and tax revenues are lost whilst other taxpayers are left contributing more for the extra unemployment benefits etc.

Many notable political economists, including Adam Smith, David Ricardo, Karl Marx and Henry George have noted that the economic rent of a site is the surplus value of production after costs of wages, capital and taxes have been met; this land rent is taken by land owners and is unearned income.

The LLC argues that this distorts our economy, because as productivity increases, thus increasing the value of land and therefore its rent and price, the land owner profits without any effort on their part. This underlying value and future rises are mostly tax free and not recovered to be used for maintaining and developing public services. Consequently, land hoarding and land speculation are encouraged, at the expense of investment for production. Irresponsible landowners realise they do not need to use their land efficiently in order to see it rise in value, thus providing them with a growing asset. This gives rise to speculation in land by those anticipating future land price rises, providing land owners with unearned income through no effort on their part. The obvious bad effects of land hoarding and land speculation are seen in the number of idle development sites and empty homes and empty business premises throughout Scotland. This creates an artificial shortage of land for homes and jobs, and pushes up the price of active sites by their artificial scarcity value, not their value to society.

Because Scotland's tax system does not collect land rent *per se*, it means that as productivity rises so landowners will collect more rent from land (mostly untaxed) depriving public authorities of a valuable community created resource. Land Rent would be better used to reduce those taxes that have an adverse economic or social impact and that act as a drag anchor on the economy, particularly Income Tax, National Insurance Contributions and Value Added Tax.

Scotland's and the UK's tax system also distorts the economy because it offers little incentive for businesses to locate and invest in depressed areas to take advantage of lower land values without incurring the same marginal rate of tax as in more prosperous areas. This perpetuates the vicious cycle of low investment leading to higher unemployment and lower incomes in economically deprived areas.

4. An annual Land Value Tax

An annual Land Value Tax (LVT) is a system of capturing this natural resource wealth by valuing each site according to its optimum permitted use and then levying an annual charge. The mechanism is similar to the Rating system but is only concerned with land value and not building value. By levying it on all land, regardless of the investments made on the land, it means an automatic rebate to the public purse of the value that arises because of public and private investments (past, present and planned) and does not penalise new investment in buildings and machinery and does not penalise increased employment.

In effect, LVT collects a share of the economic rent of a site for the public purse. The levy on the annual rental value will adjust automatically as values increase or reduce. Whereas currently, the owners of idle development sites and empty buildings often escape paying Council Tax or Business Rates, LVT will encourage them to behave responsibly and use their properties according to the permitted use or sell or lease them to another owner who will bring such sites and buildings into full use, thereby providing homes, business premises and farmland for those who need them.

5. The impacts on individuals, households and inequalities in income and wealth

All land value is created from our combined demand for its use and not from its ownership. Every person and business pays taxes at some level and they all pay for our public services that add value to land with public transport, roads, education, health services and parks being the biggest contributors. Consumers pay for the goods and services provided by the private sector. Our current tax system penalises those who work and entrepreneurs trying to make reasonable profits and discourages investment and new jobs, yet land value is an unearned source of wealth that goes to owners of land and not for the good of those who generate it in the first place. By capturing land

wealth to replace all or part of other taxes, homes and business premises will become more affordable to rent or buy; more jobs will be created in all areas including those areas currently deprived of good investment. As unemployment falls and wages rise, so the amount of taxation currently spent on social benefits for people on low incomes will fall, meaning either taxation could be reduced, or the increase in net revenue can be used for further, much needed, investment in public services.

6. The wider macro-economic, demographic and fiscal impacts, including housing market and land use

Where sites are kept out of use either deliberately or through inefficiencies, an artificial shortage of land is created which pushes up the price beyond its true level, thus encouraging more land speculation, which in turn damages the economy and makes homes unaffordable to rent or buy for a growing number of people. This trend also results in urban sprawl, with the adverse environmental and social consequences, including long commutes, more traffic, increased pollution, greater demand on schools, health care provision and local infrastructure – costs that are mostly if not all picked up by taxpayers, and not the developers concerned. Because of high rents and an unfair tax system, businesses are becoming more and more centralised in more prosperous areas and increasingly, villages and smaller towns are deprived of local services and jobs.

If Scotland were to champion a fundamental shift in current property taxes, Income Tax and National Insurance off wages and production and introduce an annual LVT on all land, land wealth would be used to maintain and develop local services instead of it being sucked out of the economy by Scottish, English and overseas land owners and land speculators.

Because the speculative value of land would disappear and because more land would become available for homes, the price of land would initially fall and make homes more affordable for all. Businesses could afford to remain, start or expand in currently deprived areas and activities such as crofting, home crafting and individual shops could thrive. More jobs would be created, giving more opportunities for those currently forced to move to more prosperous areas in Scotland and elsewhere, enabling them to remain in areas of their choice.

With LVT, farm land would be used more sparingly and farmers that currently do not make best use of all their farm would be encouraged, economically, to rent or sell part of their farm to new entrants or to existing farmers needing more land or to community farming groups unable currently to afford good farm land for their projects to develop.

7. The administrative and collection arrangements that apply, including the costs of transition and subsequent operation

The Scottish Land Register would need to be completed with all sites valued at their optimum permitted use and then a levy charged based on each valuation.

A lot of relevant data is currently collected and held by local and Scottish government on land registration. The skills of valuers exist in determining Business Rates and the skills of those concerned with the administration of and collection of Business Rates and Council Tax are already in place. It is not intended to suggest the transition does not need planning but the mechanism and skills already exist certainly for replacing Business Rates and Council Tax with an annual Land Value Tax that could easily be expanded as other taxes are reduced or replaced. The valuation of land is easier and therefore cheaper to carry out than valuations of buildings and this happens, for example, in many jurisdictions in the USA where 'two-tier' or 'split level' property taxes are in place. The land is valued separately from any buildings and a rate is levied on both valuations; experience shows fewer appeals are made on the land valuations and fewer staff are needed in valuing land than for valuing buildings.

8. Potential timetables for transition, with due regard to the 2017 Local Government elections

With current information already held, access to land mapping and land valuation techniques that already happen when land becomes available for development, and the availability of skills in valuation, administration, information technology, among existing staff, together with the employment of others, switching from Council Tax and Business Rates to LVT, should take no longer than two years. It took one year for Scotland to switch from Rates to the Community Charge and two years for the change from the Community Charge to Council Tax. Once the system is in place, reducing other taxes that Scotland has or will have under its control, increasing revenue from LVT can happen annually according to what is decided by the Scottish Government.

9. The impacts on supporting local democracy, including on the financial accountability and autonomy of Local Government

Local residents and local businesses create all land value in Scotland (and greatly contribute to land value in heavily invested areas such as London) and should share fairly in the natural resource wealth they generate. LVT is fair, transparent and unavoidable and offers the Scottish Government a sustainable source of revenue for maintaining and improving all public services including education, health, transport and social housing and would make Scotland a world champion with those countries currently investigating LVT to stop land speculation from wasting valuable land and distorting their economy (including Saudi Arabia and Ecuador).

Ideally, LVT could be collected at two levels with one charge levied by the Scottish government for national and local services (with an in-built equaliser between prosperous and less prosperous local areas), and an additional local levy for those local authorities that want to provide additional services for the benefit of their local residents and/or businesses.

10. The revenue raising capacity of the alternatives at both local authority and national levels.

Land value and taxes are inversely related. The effect of a revenue neutral change, would require most existing taxpayers to pay less individually. This arises because of an increase in the tax base as owners of existing non-productive sites will contribute – many unused homes, empty business premises and idle development sites are currently not required to pay Council Tax or Business Rates. Also, with other taxes, tax avoidance and tax evasion means there is a gap between what should be collected and what actually is collected. Because LVT encourages full use of each site according to its optimum permitted use, tax revenue will automatically increase. LVT cannot be avoided so is a sustainable and predictable source of revenue allowing better planning by all Councils on local services and by the Scottish Parliament on devolved national services.

11. Conclusion

There are strong arguments that to substantially improve the Scottish economy and reduce unemployment all taxes should be replaced or reduced by an annual Land Value Tax on all land. However, this paper focuses on abolishing all current property taxes and introducing an annual LVT on all land according to each site's optimum permitted use. This change would see a significant and immediate benefit to residents, businesses and the economy of Scotland.

Land would be used more efficiently and land value would be collected to provide a transparent, unavoidable, fair and sustainable source of income to pay for the provision and development of local services.

Such a shift in taxes off earned incomes and onto the unearned incomes of landowners would be a trailblazer for tax reform in the whole of the UK and farther afield.

Appendix

The Labour Land Campaign

The Labour Land Campaign (LLC) is a labour movement organisation made up of individuals and organisations who are members of or sympathetic to the views of the Scottish National Party, Green Party, Labour Party, Co-operative Party, Trade Unions and wider environmental organisations. The LLC campaigns for a fundamental shift in taxation off workers, production and trade and on to the unearned income owners of land and other natural resources take as theirs even though land value arises because of public and private investments that we all pay for as taxpayers, investors and consumers.

LCC advocates a fundamental reform of all local, devolved and national taxes throughout the UK by a shift to an annual Land Value Tax (LVT) on all land with a charge levied on each site's value according to its optimum permitted use.

We would like to make the following submission and are happy to answer any queries or attend any meetings to explain our arguments. A list of Frequently Asked Questions with answers is available from <http://www.labourland.org/faqs>