

## **Submission from Dave Wetzel and Heather Wetzel to the Commission on Local Tax Reform**

40 Adelaide Terrace, Great West Road, Brentford, TW8 9PQ

[Heather.wetzel@labourland.org](mailto:Heather.wetzel@labourland.org) and [dave.c.wetzel@gmail.com](mailto:dave.c.wetzel@gmail.com)

***Although we are located in England, we are advocates of a fundamental reform of the UK tax system – local and national. Our work is carried on throughout the UK including lobbying MSPs and others in Scotland.***

***We would like to make the following submission and are happy to answer any queries or attend any meetings to explain our arguments***

***Dave Wetzel: former Vice Chair Transport for London; President of the International Union for Land Value Tax; President of the Labour Land Campaign***

***Heather Wetzel: BA Hons Econ; Vice Chair of the Labour Land Campaign; author of “Welfare for the Rich” <http://www.theiu.org/wp-content/uploads/2014/08/Welfarefortherich.pdf>***

***April 2015.***

-----

## **Arguments as to why an annual Land Value Tax is more efficient; fairer and more economically sound than current local taxes in Scotland**

### **1. Terminology used in this paper**

- a. The term “land” means the surface of the planet without any improvements (such as buildings).
- b. The term “property” refers to land and buildings.
- c. “Land Value” of a site is determined by its location value arising from the natural attributes of a site and the services provided by society which the occupier of a site can access or benefit from.

- d. "Annual Land Value Tax (LVT)" is a method for taxing the annual location value of a site whereby the site is valued for its optimum permitted use and a percentage charge is levied annually.

In effect, collecting a share of the economic rent of a site for the public purse.

## 2. Background

- a. Current UK property taxes include Council Tax, Business Rates, Stamp Duty Land Tax and Inheritance Tax.

It is increasingly recognised that these property taxes are not only inefficient but can be avoided and are unfair to businesses, responsible developers, landowners, homeowners, tenants and those unable to afford to rent or buy (including the growing number of young adults continuing to live with their families for economic reasons).

- b. Business Rates (the National Non-Domestic Rates or NNDR) are assessed on the building as well as the location value, which means responsible businesses and landowners that have environmentally sound, attractive and well maintained buildings pay higher rates than occupiers of similar but neglected buildings.
- c. Sporting estates and farms do not pay Business Rates, indeed farm owners get paid subsidies from the European Common Agricultural Policy (CAP) that capitalise into higher land values.
- d. The considerable number of commercial landowners that do not have to pay Business Rates on their property means they receive the physical and financial benefits of public services such as transport, roads, education, health, police, the fire brigade etc. without paying for them.
- e. Because many owners of commercial land are exempted from paying Business Rates (or legally evade paying by making their buildings unusable), a higher tax burden falls on those enterprises which are making good use of the buildings they own or rent.
- f. Council Tax bands are capped, so that those owning high value homes pay the same amount as owners of lower value properties and much proportionately less than those on the lowest bands.
- g. Tenants, lodgers, homeless people and the growing number of young adults who cannot afford to rent or buy a home equally contribute to sustaining and creating land value as taxpayers and as consumers. Yet, they are denied access to an affordable home because of rising land prices that makes homes to rent or buy even more unaffordable for them whilst those who have bought or are buying their home see the land their home is sited on rise in value through no effort on their part. Everyone pays taxes to some degree and because our taxes pay for public services that make our towns and cities more prosperous, surely it is just that non-property owners should also share in the economic benefit of land through a fundamental shift in taxation off earned incomes and onto the unearned incomes that go to owners of land and other natural resources?
- h. Good developers are hampered in providing premises that are affordable to all because of high land prices due to land hoarding and land speculation. Land booms and busts affect developers who bought at or close to peak prices who then either

make a loss or wait until a rise in land values before they develop their site in order to make their profit, depriving society of the homes and business premises waiting to be built in the process.

- i. Current business taxes are a barrier to new businesses and enterprises starting and existing ones expanding. Land and buildings in areas of low investment due to these inefficient business taxes, remain idle, denying the community affordable homes and business premises and preventing the owners from getting an income from the activities that could otherwise be carried out on their land.
- j. Stamp Duty Land Tax is a transaction tax and thereby distorts the market and discourages land and buildings being sold to someone who would use them.
- k. High land prices mean unaffordable homes to rent or buy for a growing number of people. Because land prices are determined by supply and demand, if local authorities are given powers and funds to purchase land on which to build social homes, land owners will increase the price of their land. Similarly if local communities buy land for their desired projects, land prices will rise.

### **3. Why an annual Land Value Tax is a good tax**

- a. This paper supports the contention that the current property taxes need to be replaced with a transparent; efficient and fair tax that does not discriminate for or against any particular group of landowners, residents or businesses. It offers a solution to replace current property taxes with an annual Land Value Tax (LVT) that is fair; unavoidable/unevadable; transparent; easy and cheap to collect and one that redistributes fairly a part of the unearned economic rent of land that is created by the whole of society not by land ownership.
- b. An annual Land Value Tax offers the opportunity to tax the unearned income of landowners and to reduce or replace taxes on the producers of wealth.
- c. LVT is a fundamental and sustainable solution to many of the objectives of the Labour Party regarding the provision of affordable homes; reducing unemployment, bringing idle development sites into their full permitted use and bringing empty homes into full use along with other empty buildings. The focus being on collecting land value to replace or reduce those taxes which damage business and that will provide a sustainable income for local and national services and force custodians of land to use it efficiently, sparingly and in the interests of the whole community, not just for exploitation and personal gain.
- d. Historically, many prominent economists including Adam Smith, David Ricardo and Nobel laureates like William Vickrey and Joseph Stiglitz have established that LVT is a preferable and more efficient form of taxation.
- e. Recent studies have concluded that Business Rates and/or Council Tax should be replaced with an annual LVT including the Institute for Fiscal Studies. In its Mirrlees Review<sup>1</sup> Tax by Design where its conclusions state “we are proposing to abolish the current system of business rates and replace it with a system of land value taxation, thereby replacing one of the more distortionary taxes in the current system with a neutral and efficient tax. Business rates are not a good tax—they discriminate

---

<sup>1</sup> <http://www.ifs.org.uk/uploads/mirrleesreview/design/ch16.pdf>

between different sorts of business and disincentivize development of business property.” They also advocate including farm land in LVT.

- f. In a report commissioned by the Scottish Green Party, Andy Wightman<sup>2</sup> proposes the abolition of Council Tax and Business Rates and the introduction of a LVT on all land in Scotland.
- g. In the Co-operative Party’s new document ‘A Co-operative Agenda for Britain’ 2015, it states”The Government should replace business rates and stamp duty with a land value tax, applicable to all land apart from property with an occupied primary residence on it.”
- h. The Green Party (England and Wales) supports Land Value Tax to replace Council Tax and Business Rates.
- i. Further information about LVT is available from the Labour Land Campaign [www.labourland.org](http://www.labourland.org) (‘labour’ as in the labour movement, not just the Labour Party) and The International Union for Land Value Tax [www.TheIU.org](http://www.TheIU.org)

***A list of Frequently Asked Questions with answers is available from <http://www.labourland.org/faqs/>***

#### **4. Land (location) Value**

- a. The Labour Party’s proposed Mansion Tax is to be levied on homes with a value of more than £2million. This begs the question “why would homes that are valued at £2million or more in one location, be valued at a fraction of that price if exactly the same building were located in other parts of the UK?”
- b. The answer, which unfortunately is unheeded by most politicians, economists or even influential think tanks, is in the question – the location.

Location value, ie land value, is created from society’s combined demand for land for homes; for food; for business and for leisure.

Land, as a product of nature costs nothing to produce, but its value (which is not created by land owners but derives from all of us in society) is collected as unearned income by land owners.

- c. Land value varies according to how accessible a site is to transport networks; public and private utilities and services; available, suitable workforce; customers and other businesses etc.

Commercial land in the centre of Edinburgh is far more desirable for the St James Shopping Centre than if it was on the outskirts because of its closeness to public transport and other businesses for its customers and is therefore more valuable and commands a higher price to rent or buy.

- d. Similarly, people want a home in an area for particular reasons including accessibility to work; shops; health care; good schools; friends; family; the countryside, pleasant views; parks and other leisure activities. Again, homes near to these facilities command a higher price to rent or buy.

---

<sup>2</sup> <http://www.andywightman.com/docs/LVTREPORT.pdf>

- e. A property is made up of two values – the value of the building and the value of the land on which it is located. Whilst the owner is accountable for building value, land (location) value is generated by the whole of society and not by the owner.
- f. The underlying value of land and future rises in land value arise from our combined demand for land and the public and private services that we want to locate near to. These services are paid for by all of us as taxpayers and as consumers. This is evident, for example, when there is a new transport service paid for by all taxpayers which not only benefits its users but increases the value of residential and commercial properties in its catchment area which, in the case of London's new Crossrail for example, is considerable - Scottish taxpayers are subsidising these London land owners and overseas speculators and this needs to be remembered.
- g. These windfall gains have been the target by three previous Labour Governments in 1947, 1967 and 1976 to capture a share of windfall land values arising from planning decisions when Attlee, Wilson and Callaghan each introduced a form of Development Land Tax (DLT). Even Gordon Brown tried to make the same mistake with his ill-fated Planning Gain Supplement. DLT fails because landowners can avoid it by not developing their land and thus creating an artificial shortage and leading to higher land prices and urban sprawl onto less valuable land.<sup>3</sup>
- h. Such windfall gains are quite unfair especially when one considers over 40% of the UK's adult population are not property owners but are taxpayers and consumers and are also responsible for the underlying value and ongoing uplifts in land value.
- i. Because most existing taxes are inefficient and damaging to the economy there is a huge distortion and the production of goods and services are seriously hampered.

## 5. Brownfield sites & Idle Development sites

- a. Because land value is not collected for the public purse, it encourages land hoarding; land speculation and misuse of our land. Development sites can remain idle for decades, denying local communities access to such land for homes or business and creating eyesores in the process; the Register of sites in the 2013 Scottish Vacant and Derelict Land Survey showed there were 11,418 hectares of brownfield sites that should be used for homes, business and leisure<sup>4</sup>.
- b. Empty land, homes and commercial buildings left empty by irresponsible owners and speculators deny people access to these properties for homes and business. Some 23,000 homes are long term empty in Scotland whilst, in 2013-14, 29,326 households were assessed by their local authority as homeless or potentially homeless (36,457 applied under the Homeless Persons legislation)<sup>5</sup>. The Scottish Government estimated in 2005 that Scotland needed over 8,000 new affordable homes for rent each year.
- c. Because there are insufficient council homes being built and so many have been bought under the right-to-buy, more and more people are forced to rent from private landlords. Cheap mortgages under buy-to-let schemes has seen a growth in the private rented sector pushing up the price of homes which has further excluded

---

<sup>3</sup> Labour's Flawed Land Acts 1947-1976. [http://www.labourland.org/downloads/papers/Vic\\_Blundell\\_DLT.pdf](http://www.labourland.org/downloads/papers/Vic_Blundell_DLT.pdf)

<sup>4</sup> <http://www.scotland.gov.uk/Topics/Statistics/Browse/Planning/SVDLSSiteRegister>

<sup>5</sup> <http://www.scotland.gov.uk/Topics/Statistics/Browse/Housing-Regeneration/RefTables/PublicationTables2013-14>

many from being able to afford to rent or buy a home in an area where they prefer to live. This privatisation of social housing means landlords in Scotland currently receive over £117 million from housing benefit paid for their tenants and the number of these landlords in Falkirk was up by 189.6% between November 2008 and November 2013. Because land value makes up a large part of a property's rental value, this means taxpayers are giving a direct subsidy to landlords for doing nothing other than own a freeholding of this natural resource; land value is created by the economic actions of all individuals and businesses in the UK – not by any land owner.

- d. In February 2014, the GMB Trade Union produced a report titled "Landlords Hit Housing Benefit Jackpot" which showed how much income from Housing Benefit went to private landlords rather than to local authorities to build new council homes for rent. A couple of beneficiaries from this subsidy were: Martin & Co (Letting Agents) who received £3.1m from 20 districts nationally including £26,000 from Stirling, £365,000 from Fife, £78,000 from Clackmannanshire and £182,000 from South Lanarkshire and Bellgrove Hotel received £1.56m from Glasgow<sup>6</sup>.

## 6. Sporting Estates and Farms

- a. Sporting estates and farms pay no Business Rates yet they benefit from public services as much as any other business including roads; emergency services; educated and healthy staff and so on and therefore it is argued that all farm land and sporting estates should be included in a shift to annual LVT.
- b. Under the CAP, all farming subsidies in fact capitalise into land value and therefore eventually go to farm land owners rather than to farmers – tenant farmers are penalised and new entrants into farming are discouraged because of high land prices to rent or buy. In his book "Lie of the Land". Dr Duncan Pickard, a farmer in Scotland argues for LVT and maintains subsidies and the current tax regime seriously damage rural communities. Dr. Pickard argues that high employment taxes and tax reliefs on capital invested, encourages the sacking of employees in favour of capital-intensive methods, whereas LVT would make farming more efficient; sustainable; protect the environment and not only would create more jobs in agriculture but would also release farm land for new and much needed young entrants.
- c. Again the Mirrlees review argues for farm land to be included in a LVT on all commercial land.
- d. These businesses get subsidies from taxpayers through the Common Agricultural Policy and pay no Business Rates (other exemptions also apply) and it is contended that they too should pay LVT on the value of their land along with all other commercial land.<sup>7</sup>
- e. An annual Land Value Tax would return land value that the whole community generates and act as an incentive for these land owners to use their land efficiently. It will also stop those buying estates for speculative purposes from doing so making land more affordable for genuine farmers and community activities.

---

<sup>6</sup> <http://www.gmb.org.uk/assets/media/documents/pressreleases/housingfeb/SCOHOUEFB.pdf>

<sup>7</sup> **Farming subsidies: this is the most blatant transfer of cash to the rich** George Monbiot  
<http://www.theguardian.com/commentisfree/2013/jul/01/farm-subsidies-blatant-transfer-of-cash-to-rich>

- f. Sporting Estates are enjoying huge increases in the value of their land thanks to subsidies the owners receive from Common Agricultural Policy ie from taxpayers:

<http://www.theguardian.com/uk-news/2014/jul/25/luxury-hunting-fishing-high-price-deer-salmon>

### **Luxury hunting and fishing estates hit record high price**

**“Demand for exclusive properties and grounds for stalking deer or fishing for salmon has soared, says study by estate agents**

Booming demand for hunting, shooting and fishing estates has effectively pushed the price of catching a single salmon to £10,000 and shooting a stag to £45,000.”

“The soaring values of vast Scottish estates are also being driven by large taxpayer-funded agricultural subsidies and payments for renewable power, such as wind farms.

[A 28,300-acre Highland estate](#) recently sold for above its £11m price tag, and the buyer bagged not just sporting rights but also £12,000-a-week in agricultural subsidies and £256,000 a year from a single hydroelectric scheme – with the potential for 11 more.

Ian Davidson, Labour MP for Glasgow South West, has called Scottish landowners “the greediest benefit claimants in the country”. According to [a report for the House of Commons Scottish affairs committee](#), 0.025% of the population owns 67% of the privately-owned rural land in Scotland, with the largest landowners expected to net around £1bn over the next few years from rental charges levied on windfarms.”

## **7. What an annual Land Value Tax is and is not**

- a. Either because of ignorance or deliberate intention to mislead, the description of LVT is regularly misdescribed and therefore politicians and their advisers have been misinformed on its merits.
- b. LVT is a levy on the annual rental value of every site valued at its optimum permitted use, including farm land, without including any improvements such as buildings.
- c. It is **NOT** any form of development tax that actually deters efficient use of land.

## **8. Stages needed to Implement LVT**

- a. LVT is much simpler than most other taxes, nevertheless a number of stages have to be completed but with information already gathered for local and national government purposes and with the benefit of modern technology and the knowledge and experience gained by those in the world that already value land, this task will not be an onerous or complicated one.
- b. **Registration of all land** - The Scotland land register needs to be completed so that the owner, permitted use and size of every parcel of land is known. This will be a

simple operation as approximately 80% of land is already registered. The current 10 year programme is not necessary as public advertisements could announce that the owners of unregistered land would be required to register within six months for tax purposes and then any unregistered land (ie land with no ownership claim) could be leased by the government to the either the current occupiers or to councils, businesses or individuals on 99 year leases with regular rent reviews.

- c. **Valuation of every parcel of land** - Each site needs to be valued according to its optimum permitted use. "Permitted use" is the use that the community, through the planning process, decides the land should be used for and "the optimum use" is the actual use that generates the most rent within the limitations of the permitted use. For several good reasons the valuation should be on a site's annual rental value a procedure familiar to the UK where business rates already apply to rental values). Annual valuations are essential in order to keep information up to date, and provide transparency and fairness so that there is not a situation such as exists with the current Council Tax which is based on 1991 valuations causing many distortions. Objectors of LVT often suggest it is impossible to value land, however where sites are exchanged land valuations occur every day of the week and there is no identified situation that exists where professional valuers are unable to determine the rental value of a site.
- d. There are many jurisdictions in the USA that value land separate from buildings or other improvements at regular intervals using modern computerised and Global Positioning System (GPS) technologies.
- e. **Apply levy** - The percentage levy on land value – the "LVT Rate" will need to be set at a level to collect sufficient funds to replace all income from existing property taxes.
- f. **Equalisation** – if LVT is to be collected by local authorities to replace council tax and business rates then a system of equalisation needs to be adopted between prosperous areas enjoying high land values and poorer low land value areas.

## 9. How much income will a shift in taxation to LVT collect?

- a. The amount collected will depend on decisions made by the government of the day such as ensuring LVT is revenue neutral; which taxes are abolished and which are reduced and the positive economic effects of LVT on the economy. It is currently difficult to give any accurate figure on how much could be collected from a particular LVT percentage because of a lack of relevant information on land values.
- b. By replacing Council Tax and Business Rates with an annual LVT, the tax base immediately grows – farmland, sporting estates, idle development sites and sites with empty homes and commercial buildings will all be contributing. Unlike Council Tax high value homes will automatically pay the same proportion of the property value as lower value homes.
- c. Because an annual LVT discourages speculation in land, land prices will fall to their true economic value meaning rents and selling prices of homes cannot be manipulated or subjected to booms and busts.

## 10. Conclusion



[heather.wetzel@labourland.org](mailto:heather.wetzel@labourland.org) and [dave.c.wetzel@gmail.com](mailto:dave.c.wetzel@gmail.com)

- a. There are strong arguments that to substantially improve the Scottish economy and reduce unemployment all taxes on producers (income tax, NICs, vat etc.) should be replaced or reduced by an annual Land Value Tax on all land, however this paper only proposes a minor reform in which replacing Council Tax and/or Business Rates with an annual LVT, would provide a limited but significant and immediate benefits to residents, businesses and the economy of Scotland.
- b. 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.
- c. Such a shift in taxes off earned incomes and on to the unearned incomes of land owners would be a trailblazer for tax reform in the whole of the UK and farther afield.

**Heather Wetzel, Transforming Communities**

[heather.wetzel@labourland.org](mailto:heather.wetzel@labourland.org) Tel 020 8568 9004; Mob 0755 270 3660

**Dave Wetzel, Transforming Communities**

[dave.c.wetzel@gmail.com](mailto:dave.c.wetzel@gmail.com) Tel 020 8568 9004; Mob 07715 322 926