

having “land value map” data available. The profile of an economy shows up, over both space and time, in the ‘landvaluescape’ produced from a regularly maintained database of land values. Where this is freely available, it dramatically reduces the cost of all property transactions, in a similar way to having transparency of price information in any market.

The industries that would benefit most are insurance underwriting and property investment. Property insurers need to separate the value of buildings (which burn, get flooded and generally deteriorate over time) from the value of the land sites on which they sit, which normally increases in value irrespective of what the owner or occupier does. Developers and their financiers incur significant costs establishing the underlying value of sites in which they wish to invest.

ALTER proposes that Government takes a lead in establishing a public-private partnership (PPP) under which a company specialising in managing large datasets be contracted by the PPP to design and operate a system to support administration of LVT which, for a fee, commercial users would be able to access for commercial transactions. We believe that all that holds back such a system here (which exists in Lithuania) is a lack of will to undertake fundamental property tax reform.

Further details on this idea – and other research into the implications of LVT for UK business – can be found on <http://www.landvaluescape.org/archives/2009/12/02/abstract.pdf>.

Liberal Democrat Action for Land Taxation  
and Economic Reform

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## THE BUSINESS CASE

There are three pillars of the Business Case for LVT in Britain:

- It would be good for ‘UK plc’: improving efficiency and international competitiveness right across the wealth creating economy;
- It would incentivise better use of urban land, business growth and investment and invigorate depressed regions, towns and city centres;
- A Business Model can be devised for its administration that would make its introduction cost neutral for Government.

**The Economic Benefits** There is a massive ‘deadweight burden’ (about 20% of GDP) on the productive economy caused by a range of taxes which add to costs, whilst much of the benefit from economic activity leaks away in the form of land value. Land ownership *per se* is an entirely passive function, yet it feeds **off** production and wealth creation and feeds **into** perverse and damaging



speculative behaviours that cause the ‘boom-bust’ cycle.

Taxes on workers’ earnings and profits are paid out of money that could be invested by employers - business owners - in improving efficiency or used directly to reduce prices: either way, to gain competitive edge. A consumer-led model of economic ‘growth’ gives the illusion of wealth, by allowing house prices (i.e. land values) and a “feel good factor” to rise, without sustainable substance. It is far better to free up real growth by reducing corporation tax and income tax (especially by raising the basic threshold, as the Lib Dems did in Coalition), leaving more of what is earned with those who earn it.

Taxation of the annual rental value of all land would dampen speculation and give stability to the economy, because the fruits of enterprise would be retained by (or returned to) those who produce. Without LVT it is siphoned off by ‘rent seeking’, which was called “the mother of all monopolies” by Winston Churchill.

Levied as a national tax, it would help poorer regions and alleviate pressure on over-heated ones, with no need for subsidies. It would also boost manufacture at the expense of financial services.

However such a fundamental tax reform could be disruptive unless introduced in a planned, gradual way. The first and most obvious area for reform of business taxation is Business Rates.

### **Business Rate Reform**

Business rates have become enormously complex and MPs and business leaders accept they are no longer fit for purpose. The only question is: what to replace them with, and when? Property taxes of this kind are really “*a mixture of the best of all taxes [LVT] and of a rather bad tax, that on buildings*”, according to Nobel Prize-winning economist William Vickrey.

Where property taxes on both land and buildings have been split, with a progressively lower rate on buildings than on land, research in the U.S. has shown that construction activity is

significantly boosted – by about 16% for every 1% increase in the differential. Some cities have now reduced the tax on buildings to zero and these benefit from lower house prices with higher economic growth than nearby competitor cities that have not been reformed.

Liberal Democrats have long supported such a reform of business rates. Now we’re supported by the prestigious Institute of Fiscal Studies. We would levy an annual tax, set by local councils, on the site value of all land not **used** for housing or agriculture: Site Value Rating (SVR). This would apply to vacant and derelict sites within settlements, including those with planning permission for housing not yet implemented. As in the U.S., it would happen gradually but probably be complete within 5 years. As now (it is a **national** non-domestic rate - NNDR), the revenue could be shared between all tiers of government: all their decisions affect land values.

For most business rate payers, the effect of such a reform (assuming it is revenue neutral overall) would be to **reduce** their tax liability. For a few owner-occupied businesses and landlords of vacant sites and derelict buildings, it would significantly increase tax liability, incentivising owners to bring those sites into better use, within planning constraints of course. **Investment in property wouldn’t result in a tax increase, as it does now.**

Research has shown that most businesses would support this reform and that it might cost no more to introduce and administer than NNDR costs now, over the 5-year cycle of revaluations. Even taking account of the cost to government and taxpayer of claims and of keeping land value registers continuously updated, some experts believe it would be simpler to understand, as well as economically efficient.

### **A Business Model for LVT**

To keep the cost of reform to a minimum, Government should look to private industry to share both the costs and benefits of