

Why other systems have failed

There has been a series of attempts by government to collect planning gain, and all have failed (see leaflet in this series: 'Short History of Flawed Land Taxes'). All were based on charges, ranging from 40% to 100%, on the "betterment value".

The payment in these cases was due, not on the grant of planning consent, but when the actual work was done. There was no pressure to carry out the work for which planning consent had been granted.

Landowners judged, rightly, that an incoming Conservative government would abolish the charge. Meanwhile the rules surrounding these charges grew increasingly complex. The supply of land dried up and many desired developments did not take place.

"Section 106" agreements were introduced in 1971 as another way of transferring betterment value to the public purse. Community Infrastructure Levy (2012) is an adaptation of the idea. Both apply upon award of planning permission.

With LVT in place there is no need for any of these special measures. The beneficiary of planning gain pays his dues to the community. The general uplift in land values following a development means there is a tax revenue to pay for necessary infrastructure improvements.

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Action for Land Taxation and Economic Reform

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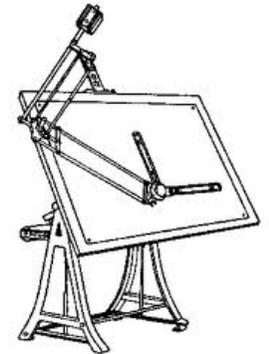
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ACTION FOR LAND TAXATION & ECONOMIC REFORM

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LVT AND PLANNING

If Land Value Tax (LVT) is to work well it must have a proper relationship with the planning system. Planning decisions represent the community's view as to how land should be used. If they are properly applied, taxes on land values support and strengthen these decisions.



Planning decisions affect land values. If a redrawing of the green belt moves a field from inside to outside, the lucky farmer is suddenly the owner of valuable building land. Politicians have long agonised as to how to claw back some part of this windfall gain. Although most politicians fail to notice the slow incremental gain – or loss – of value as sites are affected by all sorts of community activity, this sudden unearned gain is very obvious. Many ad-hoc measures have been introduced to capture such gain, which in the absence of a proper understanding of land taxation have failed.

This leaflet sets out to explain how Land Value Tax complements and supports planning policy; and why other attempts to capture planning gain have failed.

Assessing Value

Value is assessed according to the site's 'highest and best use'. Very often this is accurately reflected in its commercial value. The price of building land, or the cost of rentals, in a city centre is a good guide to land value for LVT purposes (once the value of any existing buildings have been discounted). However, we might not want that assessment applied to, for instance, the small parade of shops which provide a useful amenity for the office workers. Not every piece of city centre land needs to be developed to its limit.

Fortunately, it is not the job of the LVT valuer to make that judgment. The local Planning Department will have done it for him. So before he settles for a low valuation for the shops, the valuer will need to check whether this is indeed 'highest and best use' of the land or whether a job-hungry local council has designated it for business development. In the first case it will attract low tax and the shops will survive, in the second it will be highly taxed and they will be replaced by an office block.

Even though the planning status of a site is currently restricted, it often happens that developers calculate that the pressure for houses or offices is such that it is only a matter of time for its status to change. So the farmer with the green belt field in the previous example might be offered a tempting price for it by a wily developer while it was still designated as agricultural land. This is sometimes called 'hope value'.

LVT valuers must ignore hope value. It would be wrong to tax the landowner on the basis of development which is not currently available for him to pursue.

Encouraging development

Once planning consent for development has been given it will be reflected in a higher level of tax. The actual tax levy might be delayed for six months or a year or, in the case of a large site developed in phases, much longer. But the landowner needs to be aware that he is expected to use the land in accordance with its new 'highest and best use'. If he doesn't, he will still have to pay the tax.

It is this aspect of LVT that makes it such a powerful tool for encouraging economic activity. Provided the tax rate is significant, landowners will not be able to hoard unused land either through idleness (as where the owner 'can't be bothered' to let off surplus premises) or through greed (as where the big supermarket firms buy up large sites simply to prevent their competitors getting access to them).

People often ask whether landowners will need to be protected from planning applications from third parties. A householder with a large garden, for instance, might find a would-be developer, or even a disgruntled neighbour, is applying for consent to build a couple of bungalows in his garden. If they succeed, he will have to choose between losing his garden, finding the extra tax or moving. Planning departments will need clear policies as to precisely where they want development to take place (in which case it is acceptable to put pressure on the householder) and where they want to protect open spaces.

Planning committees will have a heavy responsibility under LVT. What they plan for will happen. But equally, where they protect open spaces or low levels of development, the consequential low levels of tax will facilitate the type of use they want.