

ALTER

ACTION FOR LAND TAXATION & ECONOMIC REFORM

2/4/2013

Comments on: Liberal Democrats Policy Consultation Paper 114 "TAXATION"

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Note: the following answers relate to section 4 of the consultation paper, "Property and Land Taxation".

Q21 Do you agree that we should aim to have a significant national LVT?

YES.

LVT allows public works to become partly or wholly self funding, as the Coalition has incidentally recognised with its so called "tax increment financing". Better roads, schools etc increase local land values and so generate additional tax revenue. Those who benefit directly from developments in general, due to an increase in their land value, contribute towards the cost via land value tax. This applies equally to local and national infrastructure improvements, thus LVT must be local and national. A national LVT would enable a significant reduction of other taxes (e.g. raise the income tax allowance to NMW) and could be on top of – and administered together with – a local Site Value Rate for councils. All tiers of government could tap into the tax base.

As well as restoring a regional balance within the UK, LVT would help small and starter business on less good sites everywhere. They would be paying less LVT and, as it replaced other taxes, less or no taxes such as VAT and income tax.

Older people would have a choice of deferring the payment until after their death or, more usefully, moving to a smaller, lower-taxed property thus freeing up a family-sized house.

Q22 Do you support introducing a land tax for government land?

ALTER not clear what this question means, and we believe there are two possible interpretations. We give our answer for both interpretations:-

First interpretation:-

Q22a: (Were a land value tax to be introduced), do you support levying it on government land in the same manner as other land?

YES. Government land should be treated like any other land and subject to the same tax when LVT is introduced.

There are certain land uses that are unique to government, for example military training ranges. If higher value uses emerge, e.g. due to the development of new high value industries in the locality, the LVT levied should reflect the highest and best use permitted by local planning, which is not necessarily the existing government use. It is important to provide signals to government agencies that allow them to make rational decisions regarding limited land resources, for example by relocating land hungry facilities to marginal areas if practical.

Second interpretation:-

Q22a: do you support (running a pilot study of LVT by) levying it on government land in the same manner as (it would eventually be levied on) other land?

NO. Any pilot should include non-government land. An essential aspect of LVT is its interaction with other taxes, including impact on computer & IT systems. Such aspects could not be studied in a pilot limited to government land but must include public and private owners.

Q23 Should we have a high value property (or mansion) tax at all? If so, should it be based on property values or on land values? Is £2m the right threshold for such a tax?

This is three questions:-

Should we have a high value property (or mansion) tax at all?

NO

ALTER believes it is a mistake to base any thresholds on the value of single parcels of land or property holdings. We already advocate a “homestead allowance”, i.e. a threshold under which no LVT is payable, but this is provided per individual, not per property holding. To administer tax exemption “per property” is an invitation to artificially split the registration of large properties into several smaller ones for tax avoidance purposes

ALTER already advocates a “homestead allowance”, i.e. an individual’s threshold under which no LVT is payable. By treating LVT as a tax on “imputed rental income”, this could be integrated with the existing income tax system (analogous to old fashioned “Schedule A” rental income).

Thresholds always provide a tax minimization opportunity, and the proposed homestead allowance would be no exception. Tax accountants would ensure that the homestead allowance was used to maximum effect. For example they could establish multiple legal owners of an individual’s property. However in the UK the effectiveness of such measures will be very limited due to the extreme concentration of property ownership.

If so, should it be based on property values or on land values?

ALTER believes that land tax should be exclusively based on land values, not the value of buildings or other improvements to the property. There are a number of advantages.

- First, there is no need for the tax assessor to have any knowledge of the condition, construction details, or usage of any buildings on the property.
- Second, such a tax does not penalise improvements, extensions or renovations to the building, thus avoiding a negative impact in construction investment.

There is also a danger that, in practice, some ‘mansions’ would be missed causing outrage in the press.

Is £2m the right threshold for such a tax?

We do not believe a threshold should be set “per property”. We do believe in a homestead allowance per individual (see above), but this would be much lower than £2m.

Q 24 If possible, would you agree with a mansion tax based on an individual’s holdings rather than specific site?

NO, to “mansion tax based on an individual’s holdings”

Firstly, ALTER does not agree with “mansion tax”, since we do not agree that the whole property should be taxed. The buildings are not a proper target for taxation, only the land.

YES, to “land tax based on an individual’s holdings”

ALTER agrees that any tax exempt threshold should be per individual (see above), and ideally integrated with income tax exemption, *not* per “mansion” or per “plot of land”. To administer tax exemption “per landholding” is an invitation to artificially register large landholdings as several smaller ones for tax avoidance purposes.

Land value tax should be levied on all land in proportion to its market value according to its “highest and best use” in accordance with planning rules.

Q 25 Do you agree, given current economic conditions, reforming SDLT should not be an immediate priority?

YES

However it should be an early candidate for abolition rather than reform once LVT is established.