

A Minority Report: Proposals relating to Land Tax

“LVT is the appropriate instrument for the urgent fight against global inequality and poverty..... Without land tax there is a vast amount of land speculation which is pushing the price of land sky high, making it unaffordable for the poor in cities.”

UN-HABITAT, “Global Tool for Land Value Taxation & Capture” November 2006

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Taxing the unearned wealth that flows from asset-poor to asset-rich has been Liberal and Liberal Democrat policy for 100 years. It formed the cornerstone of Lloyd George’s 1909 “People’s Budget” – although vested interests in the Lords ensured it was never adopted. Poverty, injustice and deadweight taxes on jobs are the price Britain has paid ever since.

Through tough and changing times for this Party, LVT has remained a key policy, although surviving only in local form as Site Value Rating - our replacement for Business Rates.

Then, in September 2006, Liberal Democrats realised the potential of a fiscal package whose time had come. By a clear majority, Conference endorsed a tax shift from people to pollution; from work to waste; from value added to value removed. Acknowledging that *“‘ability to pay’ can relate to income or wealth”*, Conference called for *“further policies on land taxation to be developed, including consideration of the Lyons Review when it is published”*.

Greener, Fairer, Simpler outlined some such policies for the re-convened Tax Commission (TC2) to consider. It has failed to do so, hence this Report to FPC by those TC2 members who believe more needs to be done now on LVT.

Local Income Tax was unthreatened; in its brief to the re-convened Tax Commission, the Party’s Federal Policy Committee recognised that *“of course it would be possible to develop a land tax which replaced some other national tax and did not affect LIT”*.

As for the Lyons Review, Sir Michael asserted: *“Most economists would agree that there is a strong case for levying taxes on land”*. He also confirmed that land value:

- *“can be taxed without altering the incentives to use the land”*
- *“is the result not of the actions of the owner, but the activity and investment of the wider community”*
- *is “relatively straightforward to identify for taxation purposes”*

The British Retail Consortium (BRC) submission, quoted by Lyons, put the business case:

“Land Value Tax (LVT) has a number of advantages. These include not distorting behaviour in the same way as taxes on income and profits do, LVT’s potential effectiveness in incentivising the efficient use of land (as all land would incur a charge even when it was not being used for productive activity) and taxing land values could also enable local governments to profit from some of the increase in value as a result of a prosperous local economy”.

Although Lyons' remit was limited to local government, on LVT his report endorsed the Liberal Democrat view. We could now develop "**further policies on land taxation**" - as Conference had moved - with the authority of Lyons and the BRC behind us.

However the Majority Report has failed to deliver. A poorly attended meeting of TC2 convened specially and with plenty of notice to discuss domestic land and property taxes, decided not to do just that, leaving Liberal Democrats with no new policies on land tax. The consequences are grave.

As '**Fairer, Simpler, Greener**' states, replacing Council Tax with LIT "**will leave the UK in a unique position internationally of having no direct taxation of property at all**". It went on: "**there is good reason in principle why taxation of [domestic] property should be retained**" - essentially because "**tax reform should take account of inter-generational issues**".

This is the crux of our concerns. The '**Reducing the Burden**' Majority Report contains nothing that addresses the flow of wealth from poor to rich; from young to old; described as "the colossal injustice" of our time. It also has nothing to say on the consequent crisis - unaffordable homes. And it has nothing to offer the next generation but more tax, albeit local, on their productive labour. LDYS share our concerns: at their Spring Conference in March, they voted by an overwhelming majority to replace Council Tax not with LIT but with LVT.

We believe it is not necessary to abandon our policy on LIT, any more than it is necessary to delay the introduction of LVT on domestic property beyond the introduction of LIT. Indeed it is vital that we do plan to switch the taxation of property from being local to being national **at the same time** as we switch a significant portion of income tax revenue to local authorities. It will be far harder to introduce LVT after voters have become used to having no property taxes.

Taxing the value of million pound homes is no solution. It is not *land* taxation for a start. It is perhaps the worst kind of envy-laden 'gesture politics'; raising little, delivering less and in no sense a step towards LVT. With over 99.5% of the nation's homes untaxed, average property prices will rise by over £20,000 and this Party will have significantly exacerbated the inter-generational crisis in affordable housing. This ought to be completely unacceptable to Liberal Democrats.

However by raising considerably more revenue from many more homes, we can deliver more of the benefits outlined in **Greener, Fairer, Simpler**.

LVT is vital to tackling wealth inequality *and* climate change. '**Fairer, Simpler, Greener**' outlined LVT's green credentials; every other eco-tax will eventually erode its own yield. Switching taxes to the ultimate finite resource is essential - for people, planet and posterity.

The Tax Commission was directed by FPC to deal with the "**practical issues which would have to be resolved to make a property tax workable**". Number one should be the registration and valuation of all land. LVT/SVR on commercial land only will multiply the problems for valuers and tax administrators. It would be fairer and far simpler to assess all UK land from the outset, leading to a single unified property tax system with no artificial boundaries between residential and non-residential land.

Since 1997, the value of Britain's housing stock has tripled to over £3.5 trillion compared with a mere 5% increase in supply. We propose to use national LVT to raise over £10 billion in revenue from the year that Council Tax is scrapped and LIT introduced – which it is accepted will take five years to achieve. We would use this revenue to first to scrap Stamp Duty Land Tax (SDLT) and IHT on all principal residences, if possible also allowing further tax cuts for the low paid.

Among the wider benefits of this reform of property taxes would be:

- encouraging a million vacant homes back into use without sacrificing greenbelt.
- stabilisation of house prices, which we would aim to maintain thereafter in line with inflation.
- Increased labour mobility – which SDLT impairs to the detriment of the economy and family life
- Reduced under-occupation of homes over time

In 5.1.2 we have already said that national land valuation would be complete within five years and reviewed annually thereafter.

We would introduce LVT at a rate of 0.5% of the site value, with a generous tax-free 'Homestead Allowance' geared to local house prices (which vary nationally according to land values¹). As explained in ***Fairer Simpler Greener***, pensioners could be allowed to defer payments until death, sale or re-mortgage. Very few home-owners would suffer hardship.

More work needs to be done on the treatment of social housing. However the position of commercial rented housing and mixed-use property is greatly simplified, as compared to just having SVR replacing business rates, by having a single unified annual site-value-based system, albeit split between national (domestic) and largely local (non-domestic) revenue assignment.

In the long term, we envisage a single tax bill for companies and for individual taxpayers, with much simpler tax returns merging LVT with income and corporation tax systems, as happens in Sweden.

We can sell LVT as just, sustainable and economically sound: it needs phasing in slowly but it is important to introduce it now. As with LIT, implementation would take just one Parliament. We will betray our past and our future if the only UK property tax, however regressive, is axed with no progressive alternative. National LVT is that clear alternative.

*Cllr Tony Vickers
May 2007*

¹ For a typical home valued at £300k, 50% of the value in central England is in the land, elsewhere in the UK the same house might be worth half or twice that but in reality it is the land site value that varies from 20% to 75%, with 'bricks and mortar' scarcely varying at all.