

Land Value Tax: The progressive answer to the housing emergency

Behrooz Tavassolian argues Land Value Tax is the best way to resolve the current Housing shortage problems that manifest itself within the UK.

An issue that is sure to dominate the 2015 General Election is the current housing shortage crisis that is engulfing the country. The British electorate have consistently named housing as their top concern with a recent Ipsos MORI survey ranking it the highest it's been in five years.

This is unsurprising as British families renting their home spend on average 40% of their income on housing costs and those owning spend around 20%.

According to the Department for Communities and Local Government 2011 report laying the foundations a housing strategy for England, there is a shortfall of 232,000 homes per year. Recently £5.4 billion in stimulus has been allocated to help 142,000 purchasers of new and existing housing stock in England by 2017. This is still a long way short of what is needed.

House builds are at their lowest level since the 1920s, with just 98,280 registered starts in 2012. Private rents have increased by 37% in the past five years and are forecast to rise by a further 35% over the next six years. As a result as many as five million people rely on state aid to remain in their homes.

Currently there is no tax on empty land in the UK. It can be more lucrative to acquire and hold onto empty land, watch its value increase as others invest in the area, and then sell it, than it is to develop for people to live or work on.

Land Value Tax would promote new capital investment as opposed to promoting land speculation, which results in higher land prices not more land. Two thirds of the UK's 60 million acres of land are owned by just 0.36% of the population. The land area itself doesn't determine the value but rather the location of the land does.

What gives the location value is what goes on around it. Think good transport links, good schools (a house in the UK by a good school is anything worth from 5 to 20% more than one near a bad school), hospitals and the infrastructure to provide jobs.

Land Value Tax is levied on the annual rental value of the site in question, which relates directly to the capital value. The level of tax should not be so burdensome as to oblige the owner to disown the land. It should, on the other hand, be high enough to oblige him to use the land. As owner he is the custodian of a valuable asset in which the community at large has a direct interest.

In London, for example, Royal Town Planning Institute has concluded that there was enough land with planning permission in 2007 to deliver some 30,000 houses each year until 2016. In some areas of the country it has been reported that property developers have land banks likely to last until 2050. On top of that it was estimated that in 2008, 750,000 properties standing empty in Britain over 40% long term empty.

As long as these sites are unused the owner pays no rates. Switching non domestic rates to site value taxes would give a great incentive to release this land, probably for housing use. In the previous example given this could result in site being produced.

It should be introduced at a low rate in its most lowest rate .This is because in the past there have been attempts to capture land value in other more complex ways which have proved to have had largely detrimental effects e.g. a Developmental Charge was introduced by the Labour government in 1947 and Betterment Levy in 1967. Both raised a tax when an increase in land value was revealed by a sale or development of the site.

In both cases the landowners waited for a change of government to remove the levy and the supply of land temporarily dried up.

The introduction of land taxation will empower house builders and developers as it will help them gain access to land thus enabling them to achieve these aims and meet the long term problems of supply once and for all.