

BENEFITS OF LAND VALUE TAXATION

Land is a natural resource that existed before mankind walked the earth.

Land values are created by the whole community because of our need to use land for housing, education, public services, agriculture, mining, business, transport and recreation.

Landowners do not create land values. It is the efforts of others that generate land values. (Imagine the effect on the price of housing land in an area which has no public services).

Expenditure on public services usually leads to an increase in land values. For example, with few exceptions, new motorways or rail systems lead to dramatic increases in land prices.

The planning process often provides landowners with huge windfall gains. Not only the site to be developed, but often also adjacent or related sites.

Natural justice. Land values belong to the whole community and not just a few landowners.

Land Value Taxation (LVT) is a just and fair way of paying for public services. Every site in the country would be valued according to its permitted planning use and the Government would decide the rate of LVT to be applied nationally. The tax would be assessed annually (although monthly payments could be made).

Compared to taxes on buildings **LVT provides a broad tax base** because it would include all empty properties and empty sites.

LVT would encourage new capital investment rather than sterile land speculation as it would encourage a shift of private investment from land speculation (which creates no extra land but only higher land prices) to productive enterprises.

LVT would encourage the use of empty sites zoned for development, creating more job opportunities and wealth.

LVT would help avoid urban sprawl. As brown field sites would be developed within towns and cities it would be unnecessary to permit urban sprawl. Compact towns are also more efficient in their use of resources for transport and other services.

LVT could not be avoided. (Unlike income tax and business taxes where tax avoidance experts are in great demand and the 'shadow economy' flourishes to evade taxes.) Every landowner would be required to register their land and to pay LVT on all their land holdings. With LVT any site with no registered owner would be sold by auction for the benefit of the Government.

LVT would provide automatic compensation for those sites which are disadvantaged by a new development. For example: with a new railway line most sites (especially those near stations) benefit from big increases in land values but some sites (maybe housing close to the track and suffering from its noise and vibration) would lose some value. These sites would pay a lower Land Value Tax, providing automatic compensation without any complicated appeals system.

Lower interest rates. The Bank of England tries to control land price and hence property inflation with a higher base rate. LVT would act as a damper on escalating land prices, allowing the Bank to lower interest rates for the benefit of homeowners, industry and small firms.

The Government's auction of mobile phone airwaves for 25 years raised £21billion (and of course, the airwaves can be auctioned again in 25 years time!). Landing slots at airports are also a natural resource that the Government should auction on a periodic basis.

Submission to Policy Commission on Economy and Welfare

We all welcome the British Government's commitment to higher spending on public services. There are three ways that this can be achieved:

1. an increasing growth rate,
2. higher borrowing or
3. higher taxes.

Given the unpromising state of the world economy and our Chancellor's reputation for prudence, it is clear that there will soon be a need to seek extra sources of revenue.

However, all taxes affect economic decisions, which rarely result in efficient resource allocation (In his recent book "Double Cross" Ron Banks has estimated that the income lost through existing taxes amounts to £15k pa for every person in the UK). It is also true that big businesses and wealthy individuals can and do avoid paying their fair share, by sheltering their assets in tax havens, if not in the shadow economy. The main burden of increased taxes will inevitably fall on the ordinary worker, through PAYE, NICS, VAT – that is unless the Chancellor is prepared to rethink the whole basis of our taxation system.

Resource rents are created by the community or given by nature. If the Government collected a Land Value Tax (LVT), levied on all sites according to their optimum permitted planning use, landowners would be encouraged to use empty sites themselves or transfer by sale or lease to others who would put the land into use. This would create more job opportunities and wealth and avoid urban sprawl.

The cumulative effect of this would be to increase the supply of land on the market, hence reducing its price and driving out land speculation. Cheaper land prices (leading to more affordable homes, business premises, etc.) would not only help people obtain homes and jobs but would also help flatten the boom and bust cycles which have plagued western economies.

Other advantages of LVT include:

- Empty sites would be brought into use as owners would seek an income with which to pay the Land Value Tax and eyesores, such as vacant lots and empty 1960s office blocks, would be replaced by modern buildings.
- Interest rates could be reduced without creating inflated house prices in the South East.
- The price of land would be reduced in direct proportion to the impact of LVT. A low level of tax, say 5%, would have little impact; whereas a high level of tax, say 40% (the same as the higher rate income tax), would have a much greater affect on reducing land prices.
- Urban sprawl into greener areas would be contained, enabling more compact towns and cities to function more efficiently. In addition, brownfield sites would not need a subsidy and, as they are brought into use, the green belt and open spaces would be better protected from development pressures

- The huge sums sunk into property, on the expectation of increasing site values, could be redirected to wealth creation. E.g. investments in property speculation would be diverted into real capital improvements.
- The unbearable burden of debt on ordinary homeowners and small businesses could gradually be alleviated as land prices abated.
- When sites are disadvantaged (because of noise from a new road or rail line) the owners would automatically be compensated at the next valuation with a lower valuation and hence a lower tax, without any formal complicated, compensation scheme.
- Increased land values, unearned by the landowner but created by community activity, would be recycled to the public purse, instead of creating greater and greater inequality.
- Land values are an absolutely vast untapped source of revenue, which could gradually replace taxes on companies, trade and workers, i.e. the wealth creators.
- The plethora of people currently employed collecting taxes for the Government (in the private and public sector) and the equally large number of accountants, lawyers and tax advisers calculating how to legally find loopholes in the tax system could all be employed in more productive work in industry, commerce, medicine and the arts etc.
- LVT is cheaper to collect than other taxes and, unlike VAT, NICS and PAYE, does not impose collection costs on businesses.
- LVT cannot be avoided. Offshore trusts and wealthy non-residents, the ultimate owners of much of the most valuable land in this country, would make a fair contribution to the Exchequer.
- As poor people do not own valuable land LVT has a contribution towards redistributing wealth.
- Land is a natural resource that existed before mankind walked the earth and we should create a system that allows all to share in its bounty.

In summary, Land Value Taxation can help us to meet many of our basic objectives: a healthy economy; social inclusion; equal opportunities; sustainability and a fairer society.

The Government has the opportunity to offer a modern and fresh vision where all would share in our country's natural wealth. We need to create a new tax system that works in harmony with the economy, that gives an incentive for enterprise and encourages new endeavours.

N.B. The Land Value Taxation movement has been in existence for more than a century. There is a wealth of research to back up our claims and to propose solutions to the problems which would arise from implementing such a radical change to the tax system.

For further information please contact Dave Wetzel, 40 Adelaide Terrace, Great West Road, Brentford, Middx, TW8 9PQ . Tel (020) 7941 4200, E-mail davewetzel@tfl.gov.uk
 Associated website: www.henrygeorgefoundation.org.uk