Political Thinking

Chiltern U3A ‘Political Thinking’

Meeting No 17a and 17b Monday 15th Jan and Friday 19th Jan 2018

Topic: “ Land Value Tax”

Proposition

"It is feasible and fair for the UK to implement Land Value Tax to replace at least one third of current tax take.

Taxes abolished would include inheritance tax, capital gains tax, council tax, business rates, stamp duty.

Other taxes such as VAT, National Insurance and Income tax would be substantially reduced"

Conclusion

On Monday members were 75% in agreement that LVT could be a fair tax, but that its implementation was not feasible,

Friday members were more dubious and did not vote.

Discussion

Increased value of land - the case for LVT

There was general agreement that increases in land value arose as a result of factors outside the control of the individual landowner, and accordingly such gains were unearned and in some sense undeserved. It seemed difficult to justify that all the gains in land value should accrue to the landowner while the expense in providing improved infrastructure or other causal factor was met from the public purse. So there is an intellectual justification for the imposition of LVT as it recovers what might be considered an unjustified gain. Such gains are very pronounced and specific when related to change of use due to planning permission for an individual parcel, but also occur in relation general increases in property values.

Figures were produced which suggested that values for residential land in the UK had doubled in the last 20 years, of course with marked regional differences.

The case for LVT is that it captures some this gain for the public purse

Feasibility of Implementation - the case against LVT

There seem to be two principal factors making LVT difficult to implement.

Firstly due to change economic and otherwise underlying land value is in constant flux; both at the regional level and more strikingly in respect of the individual parcel of land. Thus a facility to revise and update the basis frequently would be required, a considerable administrative burden, and the procedure inevitably would not be without dispute.

Secondly land ownership of itself does not necessarily produce an income or cash flow. Taxpayers considerably would have to meet the annual payment out of income or cash from other sources; some would have other sources and some would not, so collection from the latter would be problematical. Tax collection is facilitated when there is another cash movement within which the tax can be integrated and collected, like VAT or Income Tax or even Stamp Duty. The need to sell assets to meet tax bills is always going to create resentment and enhance difficulties of collection, and postponement creates difficulties of subsequent collection and possible default, as well as non-availability for public expenditure.

Considerable difficulties therefore are foreseen in the imposition and collection of LVT.

A third factor was the likelihood that an effective land tax would reduce differentials in underlying land values and the land value itself; in effect the basis of the tax would erode as a result of its imposition. So it might not raise revenue to the expected extent.

Incentives for efficient use of land

In relation to residential property, one justification for LVT is that it provides strong tax incentives for “economically efficient” utilisation of land by taxing land ownership at the rate appropriate for the most efficient use of a plot or parcel of land, whether or not it is actually used for that purpose. So empty land would pay the tax as if it were fully developed, similarly under used or underdeveloped sites. So called hoarding of land with planning permission by developers would be discouraged; a large residential property with a large garden in a high density residential area would in effect pay the tax on the land for the house and for the garden as if it were all developed to the density permitted, incentivising downsizing and redevelopment to maximum permitted density.

Current tax policies seem to provide a perverse incentive particularly to elderly occupiers not to down size through the exemptions from CGT and IHT in respect of owner occupation. This is considered to encourage under occupation, and therefore incentivise inefficient occupation of the housing stock and inefficient use of land. This would be addressed by a change to a LVT system.

This effect of LVT was seen to have an adverse impact on open spaces and the general quality of the local environment.

Those with larger homes and larger gardens already face larger care and maintenance expenses than those with more modest properties and this was felt to outweigh the tax considerations. LVT would be an impossible additional burden for those in this position..

Alternative tax systems

“I never saw anything wrong with the rating system.” was the opinion of one member in relation to the taxation of land.

VAT is effective at revenue raising, as it is widely spread but its imposition was considered to be unfair as it is regressive, levied without regard to the ability to pay.

LVT is a form of wealth tax, and some considered that all forms of wealth should be taxed rather than just land.

And finally ...

All taxes are unfair.

The only fair tax is one that you pay and I do not.

Governments only waste money; so all taxes should be avoided.