SCOTTISH LAND COMMISSION
COIMISEAN FEARAINN NA H-ALBA

Land Reform and Taxation:

Advice to Scottish Ministers

January 2022

Executive Summary

This report sets out the Scottish Land Commission's advice on the role of taxation in supporting current land reform objectives. It aims to assist Ministers in considering the role of taxation in relation to land.

Tax is a potentially significant lever in delivering the government's land policy objectives, but at present the link between taxation and land is largely indirect. In general, it is achieved through mainstream reserved taxation of income and capital, to which specific reliefs and exemptions are applied. The current mix of reserved and devolved powers in taxation means that the Scottish Government is limited in its ability to use tax in support of land policy. We note that significant taxes including capital gains and inheritance taxation are outwith devolved powers.

We consider the extent to which taxation reforms within devolved powers can support current land reform priorities including diversification of land ownership, town centre regeneration, making a just transition to net zero, and supporting active farming.

We do not propose a single land value tax, but we do consider that the role land value plays in the tax base should be strengthened, and that this would deliver practical and economic advantages aligned with the principles for good tax policy set out in the Scottish Government's Framework for Tax.

We identify two proposed reforms to the underlying tax administration system that would increase the future policy options open to the Scottish Government, within devolved powers. We recommend:

- establishing a programme to bring all land onto the valuation roll;
- committing to the development and use of a consistent and comprehensive cadastral approach which would enable the integration of information on land ownership, use and value, building on the current work of Registers of Scotland.

We conclude there is limited potential within devolved powers for taxation reforms in themselves to make a significant impact on diversification of ownership. However, we recommend that the Scottish Government:

- considers further the potential role of Land and Buildings Transaction Tax in relation to shaping the land market in a just transition;
- seeks opportunities to engage on a UK basis on the potential for a more progressive approach to the use of reliefs and exemptions in relation to land that would support diversification of ownership.

We consider specific options for reforms of Non-Domestic Rates that would support economic recovery in town centres, by incentivising the re-use of vacant and derelict sites, building on the findings of the Vacant and Derelict Land Taskforce. We recommend consideration of:

- additional reliefs on non-domestic rates (NDR) and council tax for newly built properties on long-standing vacant sites to incentivise reuse; and
- a new power to enable local authorities to continue to apply NDR to newly derelict properties to discourage them from being allowed to fall into disrepair.

In considering the emerging implications of carbon and natural capital value in land for a just transition, we recommend:

- that specific consideration is given to the role of taxation in securing a productive balance of public and private benefit from future carbon values.

We consider tax in relation to active farming and the availability of farmland. We note that tax policy has long sought to support active farming through the use of reliefs and exemptions, but that so far these have not been deliberately designed to support current policy objectives to encourage letting of land and increase the availability of land to new entrants and developing businesses. Acknowledging these are primarily reserved matters, we recommend:

- that the Scottish Government seek opportunities to engage on a UK basis on the potential for a more progressive approach to the use of reliefs and exemptions in relation to land, including potential for an income tax relief to support letting of agricultural land.

Finally, we acknowledge the need for taxation reforms to be carefully considered in conjunction with wider policy levers and the potential for unintended consequences. In particular we note that the pace and scale of land use change driven by net zero, the obligation to make a just transition, together with the UK's exit from the European Union mean that wider fiscal support for land use is also undergoing significant change, bringing an opportunity for fresh policy alignment and integration. We also welcome the Programme for Government's commitment to deliberative public engagement on local taxation, which reflects lessons from international experience that public engagement and understanding is a key factor in successful approaches to taxation of land.

Derelict petrol station

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1 Introduction and Background

1.1 Introduction

This report provides strategic advice from the Scottish Land Commission on the role of taxation in supporting current land reform objectives and the Scottish Government's priorities. The report aims to assist Ministers in considering the role of taxes in relation to land, and how they can support national priorities:

- to support economic recovery as we emerge from the worst of the Covid-19 pandemic;
- to ensure a just transition to a net zero and climate resilient economy in a way that delivers fairness and tackles inequalities;
- to drive economic wellbeing where opportunities, wealth and power are shared more equally.

The report focuses on advice that is directly relevant to the devolved powers of the Scottish Parliament, noting that many of the primary taxation levers relevant to land remain reserved to Westminster. It also acknowledges that taxation needs to be carefully integrated with other policy levers in relation to both land reform objectives, wider fiscal policy and awareness of potential unintended consequences.

1.2 Land Reform Review Group and Agricultural Holdings Legislation Review Group Advice 2014

In 2014, in the lead up to the Land Reform (Scotland) Act 2016, the Scottish Government commissioned two significant reviews. The resulting reports ("The Land of Scotland and the Common Good" and "Review of Agricultural Holdings Legislation") both included advice on tax covering reserved and devolved powers.

The Land Reform Review Group report (section 25) made specific recommendations regarding non-domestic rates, sporting rates and land value taxation. It also recommended a more general review of all exemptions and reliefs that currently apply to land related activities, noting that authority over almost all of these is currently reserved to Westminster.

The Agricultural Holdings Legislative Review Group report (section 11) made specific recommendations mainly regarding powers reserved to Westminster. In relation to inheritance tax and capital gains tax it recommended a review of agricultural property relief, business property relief, and entrepreneurs' relief. In relation to income tax it recommended considering the case for re-categorising income from let land as trading income, and in relation to VAT it recommended reviewing whether the current exemption from VAT that applies to the letting of land should remain.

Most of these recommendations related to reserved powers and have not been taken forward by the Westminster government, although discussion on some of these issues remains ongoing. Sporting rates were reintroduced by the Scottish Government in the Land Reform (Scotland) Act 2016.

1.3 Programmes for Government 2020 & 2021

The role of taxation in land reform was raised again in the Programme for Government 2020-21. This included an intention to "commission advice from the Scottish Land Commission on how we can ensure our land is factored into our economic thinking", including "reviewing the housing land market, advice on legislative measures addressing concentrated land ownership, and consideration of tax and fiscal reforms to support greater diversity of land ownership, particularly among communities, and ensure that it is used for the benefit of greener, thriving local areas".

Two Scottish Land Commission workstreams arose from this that have already reported. These were "Land for Housing – Towards a Public Interest Led Approach to Development" and the discussion paper on "Legislative Proposals to Address the Impact of Scotland's Concentration of Land Ownership". This report concludes the work of a third workstream specifically focused on taxation.

In the 2021-22 Programme for Government, there is a commitment to undertake a review of the Land and Buildings Transaction Tax Additional Dwelling Supplement, and consider the impact of the tax on homes in remote and rural communities. It also commits to reforming council tax to make it fairer, working with the Scottish Green Party and COSLA to oversee the development of effective deliberative engagement on sources of local government funding, including council tax, that will culminate in a Citizens' Assembly.

1.4 Previous Reports

Over the last decade there have been a number of significant reports addressing potential tax reforms in relation to land. The Mirrlees Review[1] in 2011 addressed taxation of land and property, concluding there is a strong case for replacing business rates with a land value tax, and for reform of council tax.

The Commission on Local Tax Reform in 2015 concluded that gaining a full understanding of the impact of a land value tax would require significant further analysis. The Barclay Review[2] in 2017 recommended that all land should be included on valuation roll and land that is exempt should be given 100% relief.

1 Mirrlees, J, Tax by Design: the Mirrlees Review, Oxford University Press, 2011

2 Scottish Government (2017) Non-domestic tax rates review: Barclay report

The Scottish Land Commission has also published previous reports on taxation. In our first Strategic Plan we noted the importance of "reviewing the impacts of ownership structures, tax and fiscal arrangements on the public interest".

Addressing the need for further consideration of land value taxation we focussed our initial investigations on learning from international experience of land value taxation. While superficially an attractive policy option, to date no country has implemented a single land value tax and evidence identifies a number of practical hurdles such an approach would face. Our conclusions were published in 2018 – "Investigation of Potential Land Value Tax Policy Options for Scotland".

Building on this early work and in consultation with the Scottish Government we undertook further scoping investigations to identify opportunities for reform that would support current land reform priorities. A scoping report was published in 2020 – "Land and Property Taxation: Initial Scoping of Options for Reform".

1.5 Scope of This Report

This report does not repeat the wider consideration given to land and tax in previous reports. It focuses advice on opportunities within the Scottish Parliament's devolved competencies to enhance the role of land in the tax base and support current policy priorities. It draws on the Commission's previous reports and scoping, together with commissioned research and the discussions of an Expert Advisory Panel.

In 2020 the Scottish Land Commission established a time limited Expert Advisory Panel on taxation, chaired by Land Commissioner Lorne MacLeod, comprising eight advisors bringing a range of expertise. Through a series of four meetings the group worked with the Commission to consider, challenge and advise on underlying principles and options for tax reform in land. The group's work concluded in May 2021 and informed the Commission's consideration.

The advice set out by the Commission in this report is essentially strategic in nature. The Scottish Land Commission does not have the expertise to offer the kind of detailed technical advice on tax that is available to Ministers from others, including Revenue Scotland. We have, however, worked in close liaison with colleagues in Scottish Government to ensure the potential usefulness of this report in the context of the Scottish Government's recently published Framework for Tax.

2 Strategic and Policy Context

2.1 Principles for Taxation

The Scottish Government has set out key principles for good tax policy making in its recently published Framework for Tax:

- **Proportionality** – Taxes should be levied in proportion to taxpayers' ability to pay. The Scottish Government also believes that a fair tax system should be progressive, i.e. that the proportion of tax paid should reflect the relative income or wealth of the taxpayer. Equally, comparable circumstances should attract comparable tax treatment, in the absence of strong justification to the contrary.

- **Efficiency** – The tax system should maximise economic efficiency, balancing revenue generation, behavioural responses and the effects of deadweight loss. In relation to tax deadweight loss refers to the impact of a tax on the market(s) to which it relates, for example the increased price of consumer goods when VAT is added.

- **Certainty** – Taxpayers must know if they are liable to pay tax, the amount to be paid and when it is to be paid. Changes to the tax system should be justified and, where possible, follow a predictable fiscal cycle or published roadmap.

- **Convenience** – Taxes should be collected at a time and in a manner that maximises convenience for taxpayers. Tax policy should be as simple, clear and straightforward as possible and opportunities to streamline the tax system should be taken.

- **Engagement** – The public and businesses should understand the tax system and governments must be open and transparent about tax policies and their decision-making, consulting widely. This is crucial for accountability and trust.

- **Anti-avoidance** – Taxes form part of the fabric of society and we should all be proud of the contribution they make. The tax system should therefore prevent avoidance practices and governments and tax authorities should work proactively, and respond quickly to tackle them.

These reflect the principles first articulated by Adam Smith in 1776. They also closely mirror the recommendations of the Mirrlees Review on reforming the UK tax system that was published in 2011. It concluded that Britain's tax system was ripe for reform in ways that could significantly improve people's welfare and the performance of the economy. The review has since had a significant influence on tax and welfare policy in the UK and abroad.

Considering these principles with specific regard to land and property, the Scottish Land Commission has used the following to guide its thinking on potential reforms to land and property taxation:

- **Be Purposeful** – The overarching purpose for Government is expressed through the National Performance Framework, which sets out 11 'National Outcomes' that describe the kind of Scotland it aims to create. Any tax intervention proposed should demonstrate how it will contribute to these outcomes and enhance wellbeing.

- **Be Place-Based** – Ensure that responsibility for raising tax revenue should, where practical, rest with the body that will be held accountable for how it is spent. This should support democratic accountability and, as such, could be particularly important for helping to support the community empowerment aspirations which underpin Scotland's land reform agenda.

- **Encourage Behaviour Change** – Options for tax reform should be considered not just in relation to their revenue raising potential, but also in light of their potential to affect behaviour change. In relation to land and buildings, this means using tax to actively influence decisions about how land is used.

- **Create Value** – A good tax can be a powerful tool to support productivity, investment, market activity, and value creation. Sometimes, activities related to land and property that serve individuals can be at the expense of the wider public interest. An example often cited is second homes in areas where there is a housing shortage. Targeting tax to activity that extracts value will support value creation throughout the economy.

- **Minimise Market Distortion** – Any new tax policy must recognise the complexity of the role of land in the economy and seek to avoid unintended consequences.

2.2 Taxation of Land

Taxes are a potentially effective tool to achieve land reform objectives because they provide incentives that influence decision-making in relation to land use, ownership and management. Current taxation of land is, however, for the most part integrated into wider taxation of income and capital, where specificity to land is then achieved by a variety of reliefs and exemptions.

In broad terms there are four theoretical arguments in favour of taxation specifically of land:

- Taxation of land does not reduce the amount of it, taxes on land are hard to avoid, and taxes on land are usually less likely to act as a disincentive to productivity than other taxes.

- Since the value of land is frequently determined by local and national public policy and investment (infrastructure, planning policy, land use subsidy, etc) tax can be seen as charge for the services that create this value.

- The tax base is more stable and therefore more predictable than taxing personal or corporate income, as property values do not fluctuate as much during business cycles.

- A pure land tax can help to incentivise landowners to put land to productive use and may help internalise potential negative externalities of land use.

However, taxation of land value has a chequered history in the UK. In 2006 the Barker Review of Land Use Planning considered and then dropped proposals for taxation of planning gain, and in Scotland as recently as 2015 the Commission on Local Tax Reform considered options for taxation of land value but was not able to recommend specific action. Therefore while the theoretical advantages of taxing land value are articulated clearly in multiple reviews, these have not been realised within the current tax system.

2.3 Limitations of Devolution Settlements

The Scotland Act 1998 devolved powers in relation to local taxes such as council tax and non-domestic rates and provided for the variation of the basic rate of income tax. Further powers were devolved in 2012 including the ability to set a Scottish rate of income tax and to legislate for and administer taxes to replace UK Stamp Duty Land Tax and Landfill Tax. This led to the introduction of the Land and Buildings Transaction Tax in 2015. The 2012 act also introduced a mechanism to devolve further tax powers including new taxes.

The Scotland Act 2016 extended income tax powers by enabling the Scottish Parliament to set rates and bands on non-saving, non-dividend income, for example earnings from employment, self-employment, pensions and property income. Powers to introduce devolved taxes to replace Air Passenger Duty and the Aggregates Levy were also included, but these taxes have not yet been introduced.

The net effect of these measures has been to empower the Scottish Parliament in limited ways in relation to taxation of land, but to leave major areas of taxation (especially inheritance tax and capital gains tax) outside its competence. This runs the risk of a fragmented approach to the taxation of land in Scotland unless there is close cooperation on the issue between Holyrood and Westminster. It also means the Scottish Government has limited ability to make effective use of tax as a means to achieve land reform objectives.

2.4 Land Reform Priorities

The Scottish Government's current priorities for land reform are summarised in the shared policy programme published jointly with the Scottish Green Party in September 2021. This restates a commitment to continued progress on land reform. It emphasises that there should be a more diverse pattern of land ownership and tenure and a significantly higher proportion of land should be owned in Scotland by the communities that live and work there.

Ministers intend to launch a consultation on land reform proposals for inclusion in a Land Reform Bill to be introduced by the end of 2023. The Bill will aim to include legal mechanisms to tackle scale and concentration of land ownership in rural and urban Scotland, within the constraints of the devolution settlement.

Much of the underlying policy analysis of tax and land provided by previous reports noted above remains relevant, but the impetus of post-Covid-19 recovery and the more urgent emphasis on a just transition to net zero are fresh drivers for considering the role of tax in land reform.

The Programme for Government 2021-22 sets out the commitment to a just transition, including commitments to implement the recommendations of the Just Transition Commission. It also includes the commitment in relation to economic recovery to 'put communities at the heart of that recovery – supporting diverse and inclusive local economies, finance, land, and ownership models'.

These priorities are reflected in the current Scottish Land Commission Strategic Plan which includes a particular focus on land reform to address land market inefficiencies and failures, and actions to stimulate the creation and sharing of value that would otherwise be lost. Integral to this is the need to deal with inequality for both economic and social reasons. There is now a growing body of evidence to show that inequalities have reached levels that are impacting significantly on economic growth.

In considering land reform and taxation we have therefore focused on opportunities that support diversity of land ownership, economic recovery, particularly in town centre regeneration, and a just transition.

Mixed use landscape of urban and rural land in Scotland. © iStock.com – George Clerk

3 Land Value and the Tax System

3.1 Significance of Land Value

At a national economy level the significance of taxing the value of land in some form lies in the impact it can have in tackling the twin challenges of rising inequalities and low productivity. Land accounts for around two thirds of UK net worth. With rising inequalities in the UK, the role of land and its taxation is significant in addressing systemic inequalities in our economy and moving towards a wellbeing economy.

The proportion of wealth held in land is also significant to improving productivity, as wealth that is held in land is by definition not being put to more productive use. If it is possible to make high returns simply by ownership of an asset, then the incentive to innovate is reduced, and in the long run innovation drives productivity. At a macro economic scale there is therefore a strong rationale for ensuring this wealth is actively used to create, rather than extract, value. The land and property 'pillar' of Community Wealth Building seeks to address this in ways that not only stimulate economic productivity, but create social and environmental wellbeing and value as well.

While land values fluctuate, there has been a long-term trend of rising land values. This has created incentives for some to acquire and to hold on to land as an asset, potentially at the expense of productivity. Over time it also further concentrates wealth among those owning land. Current drivers in the land market, including, for example, changes in working patterns and behaviours as a result of the pandemic or the influence of carbon and natural capital value in rural land, indicate that land values are continuing to rise, often well above economic use value.

3.2 Steps to Improve Future Options by Enhancing the Role of Land in the Tax Base

There is therefore a strong case to progressively enhance the role of land in the tax base in order to support productivity and tackle inequalities, in addition to the practical advantages of land as a tax base identified above. This does not mean we propose the introduction of a single land value tax, rather that there is the opportunity to tax land more effectively through reforms to a range of tax measures.

We acknowledge that many relevant measures are reserved to Westminster. However, even within devolved competence the options available to the Scottish Government are constrained by the limited role land currently plays in the tax base. A significant proportion of land is not on the valuation roll, and application of tax to land is often indirect, through the use of reliefs and exemptions, meaning there are few tax instruments that offer the ability to directly influence land policy objectives.

Therefore we propose two practical steps that the Scottish Government could take to enhance the range of options it has in future:

a) establish a programme to bring all land onto the valuation roll;

b) commit to the development and use of a consistent and comprehensive cadastral approach which would enable the integration of information on land ownership, use and value.

The Barclay Review recommended that all land should be included on the valuation roll. Given the impact of changing rural land markets on the economy, data on land values is an important factor in making land markets and fiscal policies work efficiently and effectively. We see this as an important underlying system improvement to maintain transparency and relevance in the application of tax to land, and to be able to target tax measures appropriately in future.

We recommend that the Scottish Government establishes a programme to bring all land onto the valuation roll. In addition to better market information the purpose of doing this is to ensure that, if appropriate, the Government has the ability to respond to future changes in land values by using tax as a lever within devolved competencies. This is not to say we recommend immediate new or additional taxation, simply that government should put in place the underlying data infrastructure that would enable it to consider these policy choices in future. We do recognise the administrative cost involved in doing this, hence the need for a planned programme, and consider that the benefits in future policy options will provide value against the initial costs.

Similarly an up to date, spatially enabled and accurate cadastral system bringing together information on land ownership, use and value is necessary to make best uses of taxation levers in influencing land use and values. We note that Registers of Scotland continue to transfer transacted land onto the land register, while looking at unlocking remaining ownership information still in the Sasine register, and therefore recommend that the Scottish Government commit to the development of a cadastral approach, building on this work.

Recommendation 1 – We recommend that the Scottish Government takes steps to increase the options available to it by strengthening the role of land in the tax base, through:

- establishing a programme to bring all land onto the valuation roll;
- committing to the development and use of a consistent and comprehensive cadastral approach which would enable the integration of information on land ownership, use and value, building on the current work of Registers of Scotland.

4 Diversifying Land Ownership

4.1 Concentration and Fragmentation

The Scottish Government has a stated objective to diversify the pattern of land ownership. The Scottish Land Commission's work on scale and concentration of land ownership has already identified the advantages and disadvantages of Scotland's current, concentrated, pattern of rural land ownership. Advantages relate primarily to economies of scale, and the disadvantages to concentrations of social and economic power.

There is already a suite of legislative community rights to buy, providing the opportunity for communities to acquire land in specific circumstances. More broadly these rights have contributed to a shift in culture, in which negotiated transfers to communities are more common. Community ownership is however only one aspect to a more diversified pattern of ownership, in which more diverse private ownership should also be part.

Addressing the concentrated pattern of land ownership is a policy objective, but the risk of fragmenting family farms has also been a factor in current tax policy, particularly through the use of reliefs and exemptions which continue to apply, principally to reserved taxes. At a UK level, the first half of the twentieth century did see change in the pattern of land ownership as a result of inheritance taxation, which remains a reserved matter.

Moving to a more diverse pattern of land ownership is most likely to be achieved through a range of complementary policy interventions and market activity, rather than a single legislative provision. In terms of taxation the most significant tax levers are reserved matters so we see limited potential within devolved tax powers to effect a substantial change in the pattern of ownership.

4.2 Use of Reliefs and Supplements

We note the Land Reform Review Group in 2014 recommended a comprehensive review of reliefs and exemptions in relation to land, primarily a reserved matter which has not been taken forward. We do consider there is potential to design the use of reliefs more deliberately to act in a progressive way that would help incentivise diversification of ownership and control. However, these are not within devolved powers.

Within devolved competence, our work has explored the potential of introducing a targeted supplement to the Land and Buildings Transaction Tax (LBTT) to support diversification of ownership. Specifically, we have considered the potential of a surcharge applied to land holdings over a certain scale threshold, operating on a similar principle to the Additional Dwelling Supplement. In theory, an additional tax burden applied to large scale land acquisition could act as a disincentive to acquisitions that perpetuate or further concentrate the pattern of ownership.

Illustrative modelling using a surcharge rate of 4% as an example (aligned with Additional Dwelling Supplement), applied in limited circumstances to expansion of existing land holdings indicated that such a measure could reduce concentration of land holdings by 2.5% over 20 years. This is a small effect, though non-trivial in the context of the historically low level of land transactions. The modelling also suggests that this measure could generate c.£25 million over a five-year period in additional tax revenue.

We have not carried out more extensive modelling but we identify LBTT as a potentially significant tool available within devolved powers, either through the use of a surcharge, or changes to existing LBTT rates. Caution on the use of surcharges is required in relation considering potential avoidance, which could negate anticipated behavioural effects.

We consider that the use of LBTT is unlikely in itself to effect a major change in the pattern of ownership, or the buyers seeking to acquire land. However, in the absence of wider tax powers it could play a role in signalling policy intent and therefore shaping market behaviour. It is perhaps more relevant in considering options to address current concerns about high prices being paid to acquire land primarily for carbon management purposes. Section six below considers the Just Transition context for land taxation. Although the use of LBTT may not change the ownership pattern substantially, it does offer the potential to raise revenue associated with high land values, with the option of hypothecation open to Ministers.

Recommendation 2 – We recommend:

- that the Scottish Government considers further the potential role of Land and Buildings Transaction Tax in relation to shaping the land market in a just transition;
- that the Scottish Government seeks opportunities to engage on a UK basis on the potential for a more progressive approach to the use of reliefs and exemptions in relation to land that would support diversification of ownership.


New housing development under construction in a suburban area

5 Town Centre Regeneration, Vacant and Derelict Land

5.1 Options for Non-Domestic Rates Reforms

We have considered options to support economic recovery from the pandemic by stimulating the regeneration of urban centres. This is consistent with the recommendations from Scotland's Town Centre Action Plan Review, which noted the relevance of potential non-domestic rates reforms to recovery. It also builds on the work of the Vacant and Derelict Land Taskforce through which the Land Commission committed to considering tax proposals to support re-use of vacant and derelict land.

Our work has identified two options that we recommend merit detailed consideration:

a) additional reliefs on non-domestic rates (NDR) and council tax for newly built properties on long-standing vacant sites to incentivise reuse; and

b) a new power to enable local authorities to continue to apply NDR to newly derelict properties to discourage them from being allowed to fall into disrepair.

Applying additional reliefs to newly built properties developed on long-standing derelict land could help make it more attractive for developers to redevelop challenging derelict sites where viability is likely to be marginal. Specifically this would involve applying full non-domestic rates relief for a period of three years to newly built commercial properties and applying full council tax relief for a period of five years to newly developed dwellings. We acknowledge the potential for reliefs to be capitalised into land and property prices.

Preliminary modelling of these options suggests that the total cost over five years could be in the region of £25 million but that this could be largely if not completely off-set by the second-round spending effects and associated tax receipts stimulated by the change.

Introducing a new power that would enable local authorities to continue to apply non-domestic rates to derelict properties for a limited period after they become derelict could help discourage property owners from allowing assets to fall into disrepair. Under the current system in which derelict properties are not subject to non-domestic rates, there is a distortive incentive to retain land in that state. This change could be an important tool to support Community Wealth Building measures, encouraging an active use of land and assets for the benefit of the local economy and community.

The economic shift following the pandemic risks creating a new legacy of vacant and derelict sites, just as we are getting to grips with the legacy from the last big economic transformation. This new power would help reduce the creation of new derelict sites. Applying it in a discretionary way through local authorities would also enable local circumstances to be fairly taken into account.

These measures should be considered in tandem with other actions to support the regeneration of vacant and derelict sites, as set out by the Vacant and Derelict Land Taskforce. These include the role of proposed Compulsory Sales Orders where ownership is the constraint, regulatory alignment, public investment and responsible business conduct.

Recommendation 3 – That the Scottish Government give detailed consideration to the introduction of:

- additional reliefs on non-domestic rates (NDR) and council tax for newly built properties on long-standing vacant sites to incentivise reuse; and
- a new power to enable local authorities to continue to apply NDR to newly derelict properties to discourage them from being allowed to fall into disrepair.

An excavator removes rubble from a building site during urban regeneration

6 Natural Capital and a Just Transition

6.1 Emerging Markets

Global action on climate change is requiring major land use change in this decade and Scotland's natural capital means it is well placed to play a leading role in delivering action to achieve net zero. Public investment alone will not be sufficient to deliver the pace and scale of change required so there is a need to attract private investment, which is available at significant scale. While necessary, this could put significant upward pressure on land prices and creates the potential for substantial private windfall gains.

How Scotland delivers this land use transformation is central to a just transition. Ministers have set out a clear ambition to develop values-led, high integrity markets for carbon and natural capital, and ensure that communities benefit from this investment and emerging value. The Scottish Land Commission is addressing the immediate questions of responsible practice in its other workstreams, but the potential role of tax should also be noted.

Public policy intervention will be required to ensure an appropriate balance of public and private benefit. In relation to potential windfall gains a well-designed tax instrument could incentivise carbon sequestration and, where there are significant increases in value created by carbon and natural capital markets, ensure a fair public share of that value.

We note in section four the potential role of Land and Buildings Transaction Tax within devolved powers. Beyond this there are different options for how such a measure could work and a number of proposals have been made, including for the ways in which such revenues could be reinvested, for example in community wealth funds. At this stage we note this is a rapidly developing influence in the land market, in which significant new value appears to be anticipated. We advise specific consideration is given to the potential role of taxation in securing a productive balance of private and public value as part of the medium-term policy framework for natural capital and carbon.

This significant new driver in the land market is one example of why we recommend above that all land is brought on the valuation roll. It is a necessary pre-requisite in order to have the flexibility to develop new targeted taxation measures in future.

Recommendation 4 – We recommend:

- that specific consideration is given to the role of taxation in securing a productive balance of public and private benefit from future carbon values.

7 Supporting Active Farming

7.1 Encouraging Diversity of Tenure

In the context of the wider land use transformation to achieve Scotland's net zero ambition there remains a need to focus actively on improving the availability of land for farming, particularly to new entrants and developing businesses. An effective mix and diversity of agricultural tenure will play an important part in supporting a just transition in which the benefits of change are widely shared.

Tax policy is a significant influence on agricultural tenure, particularly through the use of reliefs and exemptions on reserved taxes such as inheritance and capital gains tax. Tax policy has long sought to support active farming, but we note it is not so far deliberately designed to support current policy objectives to encourage letting of land and increase the availability of land to new entrants and developing businesses.

Changes to reliefs and exemptions need careful consideration of potential impacts on active and productive farming, but we consider that these mechanisms could be deployed in a more targeted way, in order to favour commitment to long term leases or new entrants. For example, reliefs could be structured progressively with a cap on the level applied to in-hand farming.

We conclude there is merit in considering a new income tax relief for income generated from letting of agricultural land, in order to encourage letting, including to new entrants. However, we acknowledge that this is a reserved matter and therefore not within the competence of the Scottish Parliament. A similar measure has been implemented in Ireland resulting in an increase in the number of new tenancies and the average length of tenancy, and this experience offers lessons for Scotland and the UK.

Recommendation 5 – We recommend:

- That the Scottish Government seek opportunities to engage on a UK basis on the potential for a more progressive approach to the use of reliefs and exemptions in relation to land, including potential for an income tax relief to support letting of agricultural land.

8 Conclusions

8.1 Limitations of Devolved Powers

In summary we conclude that while tax can be a significant influence in shaping decisions on land ownership and land use, there are few simple or short-term measures open to the Scottish Government. First, we note that most of the significant tax levers in relation to land are reserved to Westminster. Therefore there is currently limited scope for the Scottish Government to make effective use of tax to achieve land policy outcomes.

Second we note the complexity inherent in anticipating the behavioural and revenue implications of tax reforms and the interaction with wider fiscal policy. Therefore we flag the risk of a fragmented approach to taxation of land in Scotland between devolved and reserved competencies creating sub-optimal outcomes.

8.2 Summary of Recommendations

That said, we do identify some opportunities for the Scottish Government to progress taxation reforms that would support land reform objectives and national priorities. In summary we recommend the following:

Recommendation 1 – That the Scottish Government takes steps to increase the options available to it by strengthening the role of land in the tax base, through:

- establishing a programme to bring all land onto the valuation roll;
- committing to the development and use of a consistent and comprehensive cadastral approach which would enable the integration of information on land ownership, use and value, building on the current work of Registers of Scotland.

Recommendation 2 – That the Scottish Government:

- considers further the potential role of Land and Buildings Transactions Tax in relation to shaping the land market in a just transition;
- seeks opportunities to engage on a UK basis on the potential for a more progressive approach to the use of reliefs and exemptions in relation to land that would support diversification of ownership.

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Recommendation 3 – That the Scottish Government gives detailed consideration to the introduction of:

- additional reliefs on non-domestic rates (NDR) and council tax for newly built properties on long-standing vacant sites to incentivise reuse; and
- a new power to enable local authorities to continue to apply NDR to newly derelict properties to discourage them from being allowed to fall into disrepair.

Recommendation 4 – That specific consideration is given to the role of taxation in securing a productive balance of public and private benefit from future carbon values.

Recommendation 5 – That the Scottish Government seek opportunities to engage on a UK basis on the potential for a more progressive approach to the use of reliefs and exemptions in relation to land, including potential for an income tax relief to support letting of agricultural land.

We acknowledge that the specific opportunities proposed above will need detailed modelling and consideration of the scope and resourcing implications.

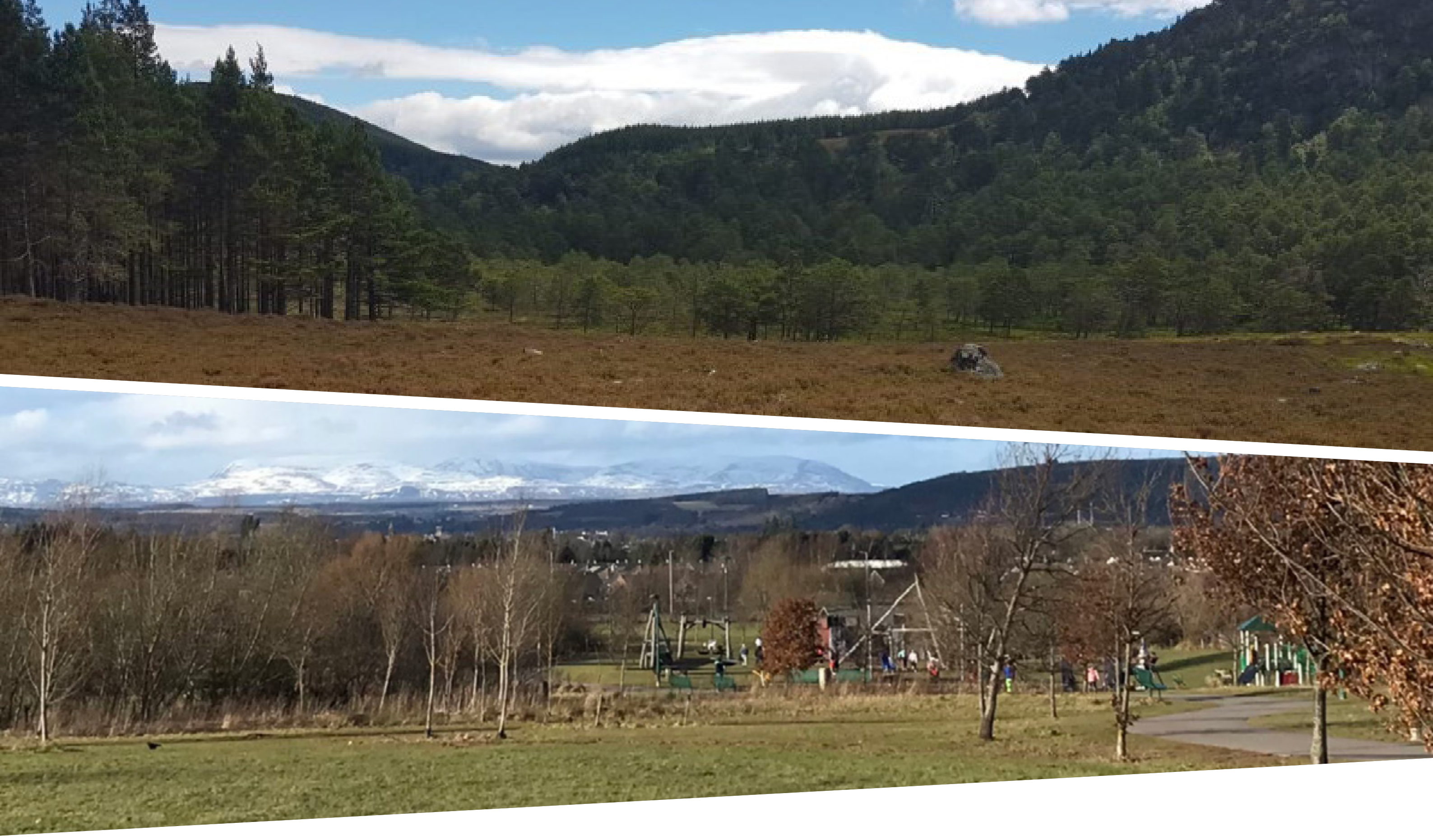
8.3 Longer Term Significance of the Role of Land in the Tax Base

We conclude by returning to the longer-term significance of the role of land in the tax base and the opportunity to tax land more effectively. A long-term direction of steadily increasing the role of land values as a part of the tax base has significant practical advantages, as well as being an effective means to address rising inequalities and low productivity. Within devolved powers, this would also increase the Scottish Government's ability to use tax as an effective lever in relation to its land policy.

As we note above, this does not imply introduction of a single land value tax, rather that the value of land could be taxed more effectively through a number of different (including existing) tax instruments.

The pace and scale of land use transformation needed for net zero, combined with the UK's exit from the European Union, means that wider fiscal support for land use is undergoing significant review and change in this decade. There is therefore the opportunity for more integrated consideration of the role of tax levers alongside wider fiscal policy in relation to land, to help achieve land policy objectives and other national priorities.

We note the Programme for Government's commitment to deliberative engagement on local government taxation, including council tax, with a Citizens' Assembly. Our research on the implementation of land value taxes internationally concluded that building a strong level of public understanding and consensus is a key success factor for implementing any form of land value taxation. We therefore welcome the emphasis on deliberative engagement and would be pleased to support this process in order to help build understanding and consensus on future options for taxation in relation to land.



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