



Land Value Tax

With a total estimated value of around £5 trillion, or just over half of the total net worth of the UK, land is the most valuable asset in the UK. Land values have increased more than 450% since 1995, outstripping the growth of assets on the land by a considerable margin¹. This has led many people to question how the benefits from increasing land values are distributed – and whether more needs to be done to ensure that the gains from rising land value benefit society as a whole. In 2017 the Scottish Government asked the Scottish Land Commission to look at the potential for introducing some form of land value based tax in Scotland².

What is Land Value Tax?

Land value tax is a tool for raising public revenue through an annual charge based on the value of a given parcel of land. Unlike other types of property tax, land value taxes are based on the **unimproved** value of land, ignoring any property or infrastructure that might be on it.

Why Tax Land Value?

The value of land is derived from its scarcity and its location. Sites with good transport links, located close to schools, shops and other amenities tend to be more valuable than sites without such advantages. As these locational advantages are generally created by society rather than the efforts or investment of the landowner, many people

believe that the uplifts in value they generate should be used to benefit society as a whole rather than be retained by an individual. Taxing land value is one way of enabling such uplifts to be returned to society.

The concept of taxing land values has a long history but in modern times is most closely associated with the ideas of the 19th Century American economist Henry George who believed that all taxes should be replaced with a single land value tax. Although George's ideas have been very influential, to date no country has ever implemented a single tax and most people today accept that the idea of a single tax is not practical in the 21st Century.

¹ ONS (August 2018), The UK National Balance Sheet: 2018 estimates

² Scottish Government (September 2017), A Nation with Ambition, the Government's Programme for Scotland 2017-18

Theoretical Benefits

Aside from raising revenue, one of the main theoretical benefits of land value taxation is that it should **encourage land to be used more productively**. This is because land value tax is based on the value of land in its optimum use as opposed to its actual use. As the tax liability on any site would be the same regardless of what it is used for, this should (in theory) create an incentive for land to be used as productively as possible.

Taxing land value should also be an **efficient approach to taxation** because the supply of land is (relatively) fixed so taxing it should not affect supply. Whereas income taxes reduce incentives to work and corporation taxes reduce incentives to invest, taxing the value of land should not affect the amount of land available.

Taxing land is also attractive for administrative reasons because land cannot be moved **so land value taxes should be difficult to avoid or evade**.

It is also argued that land value tax could help to stabilise the price of land (and the houses and buildings on top of it) by reducing the incentive to hold on to land in the hope that it will increase in value.

Does it Work?

Many countries around the world already operate some form of land value tax. In 2017 the Land Commission asked the University of Reading to look

at this international experience and assess the potential of land value taxation to contribute to a more productive, accountable and diverse pattern of land ownership and use in Scotland. This work has now been published and is available on the Land Commission's website: www.landcommission.gov.scot/publications-consultations-research/

One of the key messages from the research is that, although the theoretical case for the introduction of a land value tax is strong, there is a lack of empirical evidence that land value taxes have actually delivered the theoretical benefits attributed to them. This is not to say that land value taxes are ineffective, but rather that the research did not find unequivocal evidence that proves they definitely deliver the various benefits often claimed of them. Any further steps toward implementation must therefore be taken with caution.

But the research also concluded that, irrespective of any decision on land value tax there is scope for further reform of existing land and property taxation to help achieve land reform objectives.

Denmark, Australia, Estonia, New Zealand, South Africa and Namibia are just some of the countries that operate a form of land value tax. Research supported by the Scottish Land Commission has explored the relevance of this international experience to Scottish land reform objectives.

Potential to Contribute to Land Reform Objectives

The research evidence suggests that there are three areas where land value tax could help deliver Scotland's land reform objectives to improve the productivity, diversity and accountability of the way Scotland's land is owned and used:

Vacant and Derelict Land

One of the Land Commission's long-term outcomes is to reduce the amount of vacant and derelict land in Scotland. In theory some form of land value tax could help to achieve this by introducing a penalty for keeping land idle and creating an incentive for it to be brought back into productive use.

Whether or not this theory holds true depends largely on why land is left vacant and derelict.

If land is kept idle because the owner expects its value to increase then land value tax could provide a mechanism for transferring the cost that this imposes on society onto the owner, which could help to discourage such behaviour. But this is not always the problem. Much of Scotland's vacant and derelict land is contaminated and would require expensive remediation to bring it back into use. By adding to the overall costs of development, taxing such sites could simply make it more difficult for them to be brought forward for development.

For this reason, it is very important that any new tax should be targeted only at land that has genuine development value but is being kept off the market for speculative reasons.

Early discussions suggest that changing the way such land is treated for tax purposes is unlikely to generate very significant

tax receipts but the Land Commission believes that there may be potential for a very targeted tax to influence behaviour at the margins. That is why the Commission will be exploring whether incentives for bringing vacant and derelict land back into productive use could be improved, either through the reform of existing property tax rules or the introduction of some form of land value tax.

Land Value Capture and the Operation of the Housing Market

The debate around land value tax in Scotland has been framed by a number of significant reviews and commissions. In 2011 for example, the Mirrlees Review, the most comprehensive review of taxation in the UK undertaken in decades, found that there was a strong theoretical case for introducing a land value tax. Echoing this finding in 2014 the Land Reform Review Group suggested that local government taxation in Scotland needs to be modernised and that land value taxation should be given "serious consideration" as an option. More recently land value tax was also one of the options considered by the Commission on Local Tax Reform.

Another important area of work for the Commission is assessing options for capturing publicly created increases in land value, or betterment. Broadly speaking betterment occurs for three main reasons: as a result of public investment in infrastructure, as a result of planning permission being granted (or the expectation that it will be granted) and as a result of wider societal changes, such as improvements in the local or national economy that make a particular area more desirable to live in.

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The Land Commission is already investigating options for capturing more of the uplift in value associated with the first two types of betterment (see Land Focus: Land Value Capture) but these mechanisms are usually not suitable for capturing uplifts in value generated by wider societal changes.

These type of uplift are generally reflected in rising house prices so the benefits are usually captured by homeowners. There is therefore a strong rationale for looking at how to return some of these uplifts for society by using them to help fund the infrastructure, amenities and public services that help to support rising house prices.

Land value tax has the potential to achieve this, providing it was subject to frequent revaluations to reflect any increases to land values. That is why as part of the next phase of our work the Land Commission's plans to investigate the relationship between land prices and house prices to understand more about the potential role of land value tax in this context.

Productivity and Diversity of Land Ownership

The current property tax situation means that much of Scotland's land area is not valued for annual property tax and/or the occupier is exempted or subject to relief. This limits the range of policy tools available to deliver land reform objectives.

As part of the next phase of our work on tax and fiscal policy the Land Commission plans to examine whether and how changes in the land tax base and/or changes in tax structure could support the policy objectives to move to a more productive and diverse pattern of rural land ownership and use.

Practical Considerations

Before any form of land value tax could be implemented there are a number of practical issues that would need to be resolved.

These include:

- **Public acceptability:** Awareness and understanding of land value tax is currently low, making it difficult to engage in a well-informed public debate about the potential implications. International experience shows that this has been an important barrier to successful implementation elsewhere. As such any moves toward implementation should be accompanied by efforts to raise awareness and promote a well-balanced public debate.
- **Land registration:** Land value tax requires up to date information on all land ownership, land use and land prices but this is not yet currently available in Scotland. While work is underway to fix this, it may not provide everything that would be required to implement land value tax.
- **The planning system:** To implement an effective land value tax the planning system would need to be able to specify a permitted land use for every parcel of land and confirm any development rights in order to value the land. This could require significant changes to Scotland's current plan-led, discretionary system.
- **Valuation of land:** There are a number of technical issues around valuation including a requirement for regular revaluations, the method used to value land for taxation purposes and how the optimal use for any given parcel of land should be determined.

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- **Interaction with other property taxes:** Owners of land are already potentially liable for a range of different taxes on property and capital. Should a land value tax be introduced then it would be essential to ensure that the cumulative effect of the new tax would not negatively affect development viability and other public policy goals.

While none of these issues is insurmountable, each would require detailed investigation.

As well as undertaking further research and analysis on the specific areas identified here, the Scottish Land Commission will be engaging widely with stakeholders to further discussion about the potential role of land value taxation in Scotland.



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