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Working Paper Series

Proposals for Restructuring the Taxes Applicable to UK Residential Property to be accompanied by various Reforms to Housing Policy and the Housing Market

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Executive Summary

How to Fix the Problems with the UK Housing Market

Dan Beiny, NCH 2020

This is an executive summary from my dissertation paper, NCH, August 2020, please refer to that paper for further details.

Commentators have been bemoaning the problems with the UK housing sector for years: asset prices are too high in relation to incomes; the young cannot afford to purchase homes; private sector rents are also high, particularly in London; property is subject to investment speculation, leading to boom and bust cycles which have a much wider negative macroeconomic impact.

Many pundits have called for the introduction of a Land Value Tax (LVT) as a way to solve a lot of these problems, but the notion has never got beyond the recommendations phase, it hasn't been part of government policy since Lloyd George's two abortive attempts in 1910/14. The main reason for this seems to have been that people calling for the introduction of LVT have assumed that *it should replace Council Tax* (CT) which, as everyone knows, is very out of date in relation to property price increases since CT's valuation date of April 1991. And the further we get from those 1991 valuations the harder it becomes to reform CT.

Therefore, *the way to implement LVT is alongside CT* – we don't have to change existing CT at all, we just introduce LVT as a new tax in its own right.

But of course LVT nonetheless brings with it the twin issues of:

- an enormous differential in tax revenues between high and low land value Local Authority areas,
  and
- the potential to be completely unaffordable for those in properties on top end land areas.

However, these issues are easily overcome: firstly, LVT should be implemented at a very low rate, I have proposed 0.05% of land value, rising by this amount over four years to 0.2%. This implies, for instance, that a mansion currently for sale in Kensington & Chelsea for £30m, on a land value estimated at c£20m, would pay LVT starting at £10,000 per annum, rising to £40,000 per annum, which I suggest would be affordable by anyone who could buy such a house in the first place. For LVT to entirely replace CT, and be required to raise a

similar overall amount of tax then, based upon 2017-18 figures for England, and assuming a uniform rate, the rate would need to be 0.9%, making the tax on that £30m property £180,000 a year – probably unaffordable and unacceptable.

Regarding the Local Authority differentials, at 0.2% Kensington & Chelsea for example would raise about £175m a year compared to Tower Hamlets £27m. So, for the benefit of London as a whole, the Greater London Authority could be given the remit to collect a portion of the LVT from the wealthier Boroughs and redistribute it to the poorer ones, to be spent on improved housing in the latter. And, nationwide, since every Local Authority would still be collecting their CT as now, none would be any worse off than at present.

Two other tax changes would be eminently sensible:

- reduce SDLT on sole home purchases to a flat 1% (keep the existing higher rates on all other purchase types: multiple and holiday home purchases, corporate and non-resident purchasers). I have calculated that this would cut the total SDLT tax take by only c£319m a year (2017-18 figures for England), since most of the revenue comes from the higher-rated transactions. LVT at the low starting rate of 0.05% would raise around £1.6bn in England, more than covering the loss. The uptick in housing market activity would be immediate, and the knock-on effects of amplified economic activity through household spending would be most welcome in these difficult economic times.

- abolish the CGT exemption on PPR disposals – this longstanding benefit has ended up severely skewing the market in favour of the wealthy from an older generation, who were able to buy homes prior to the massive price rises since the 1980s; it also fuels speculative buying and selling. Some might argue that introducing CGT to capture some of these historic gains is to apply tax retrospectively, but there is ample precedent for this and, if the rate was modest, say 10%, then there would probably be little argument.

The data required to identify all land ownership, calculate its value, and charge owners accordingly, is pretty much all there, recorded by various government-sponsored institutions such as the ONS, MHCLG, Land Registry, Ordnance Survey, and HMRC[1]. The project could encompass residential land to begin with, and then be expanded to cover commercial and agricultural land use areas.

[1] ONS: Office of National Statistics; MHCLG: Ministry of Housing, Communities & Local Government; HMRC: Her Majesty's Revenue & Customs

Once implemented, LVT can be used to discourage all manner of market abuse. Higher rates could/should be applied to the same categories of owners as for higher rate SDLT.
There would of course be a number of issues to resolve:

- the elderly in high value property and with low income. A system would be required to permit roll-up of LVT until the earlier of a house sale or death

  gardens might need to be charged at a lower rate to discourage people selling off land

- a standard methodology would be needed for calculating the split of LVT between leaseholders and freeholders in apartment blocks

- measures would be required to prevent landlords from passing on LVT to their tenants (as a means of wealth redistribution it is important that LVT is paid by owners, not tenants, unlike CT)

- for properties where it is difficult to identify the ultimate beneficial owner the rate could be especially high, and charged to one of the intermediate corporate or trustee agencies. If the LVT went unpaid for a number of years legislation could be enacted to permit the relevant Local Authority to repossess the property in question; tax avoidance would thus be virtually impossible

LVT could thus be introduced in such a way that:

- it's affordable by the vast majority of property owners (with suitable measures for the exceptions)

- it doesn't impact on the existing revenues raised by any Local Authority, and could be managed so as to allow Authorities some discretion over the higher rate categories in response to local housing conditions

- it stabilises house prices, removes speculation from the market, redistributes wealth within society, and makes more housing affordable by the younger generation

- it gives government yet another tax raising mechanism – this time one that economists won't complain about.

Proposals for Restructuring the Taxes Applicable to UK Residential Property

to be accompanied by various Reforms to Housing Policy and the Housing Market

Dan Beiny NCH August 2020

UK residential property taxes are poorly designed, regressive, and outdated. They hamper mobility in the housing market and play a large role in the wider economy's inflationary spirals and tendency to boom and bust cycles. A new, Land Value Tax, together with changes to the existing taxes, as well as other housing market reforms, will go a long way to resolving these problems. At a time when the need for government to raise more tax revenues has never been so acute (thanks to Covid 19), addressing these issues, and implementing policy accordingly, will both ease the burden on the Exchequer and lead to a more equitable society. The taxation of property affects society at three levels: central government, local government, and tax payers. Any changes to the overall tax system must therefore satisfy the tax raising requirements of the first two of these, and be acceptable to the third. In this paper I show how the introduction of a new Land Value Tax, if implemented in certain ways, can successfully meet these criteria and can also be used to achieve a fairer and more efficient housing market.

1. Introduction

The existing taxes applicable to the UK residential housing sector (Council Tax and Stamp Duty Land Tax) are both inefficient and unfair. They are regressive, reduce housing mobility, skew the market heavily in favour of older, wealthier, property owners, and do not raise sufficient revenues for the provision of necessary local services.

This paper argues for a set of policy changes relating to UK residential property with the twin purposes of creating a better functioning market and a more socially equitable system.

The centrepiece of the reforms proposes changes to the taxes which most directly affect residential property. As well as reforms to existing taxes I make a case for introduction of a new Land Value Tax (LVT), to be assessed on the land value of every parcel of residential land in the country, and charged annually to the land owners.

The paper focuses on residential property in England, however the principles of the reforms apply also to the remainder of the UK and to other property sectors. Changes to

the tax system are not of course made in controlled laboratory conditions but rather within a large and complex marketplace. I therefore also describe a set of accompanying policy changes which I believe would be necessary in order to achieve the above stated objectives, and to make the tax changes effective.

The paper is arranged as follows: section 2. describes the two main existing taxes, their backgrounds and their shortcomings; section 3. covers a number of other, non-tax-related, problems which need to be addressed in conjunction with the tax changes; section 4. introduces Land Value Tax, with some history of the concept, and the reasons for adopting it into the overall tax system; section 5. first deals with the practicalities of implementing such a new tax, the bases for calculating how much to charge each tax payer, and how to overcome a number of potential difficulties in applying it; it then describes how the new tax may be used, together with other tax and market reforms, to achieve the above stated objectives; the final section 6. summarises the key points within the paper.

The data used comes from a number of UK government statistical publications and is all available online. These sources are listed in appendix A, with the data presented in a set of tables, as listed in appendix B.

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2. The Existing Taxes & Their Problems

This section describes the two main taxes affecting residential property, salient aspects of their history, and their main problems. The taxes in question are:

- Stamp Duty Land Tax (**SDLT**), a one-time transaction tax paid by the *purchaser* of any residential property, and paid at the time of purchase

- Council Tax (**CT**), paid annually by the *occupier* or resident of a property, who might be the owner or a tenant

2.1. What is Stamp Duty Land Tax (SDLT)

Whilst some form of Stamp Duty (on a wide variety of legal transactions) has been in existence since the 17th Century, the present property tax structure dates back to the UK Government Finance Act 2003 (Schedule 4ZA) when a set of property band transaction values was established with specific tax rates per band. The initial legislation gave rise to significant market distortion and was widely criticised (Muellbauer, 2005; Mirrlees et al Review, 2011) because of its ‘cliff edge’ structure. For instance, properties for sale at up to £250,000 paid SDLT at 1% whereas those priced £250,001 - £500,000 were charged 3% on the *full* sale price. This led, unsurprisingly, to an abnormally large number of properties for

sale at exactly £250,000, many of which had 'extra costs' for various fixtures and fittings which were not described as part of the property itself.

Subsequent SDLT legislation in Finance Act 2015 corrected the above cliff edge effect by applying a set of increasing marginal tax rates to only those 'slices' of value which fell into each tax rate band. So for instance a property then sold for say £350,000 had SDLT at 2% (the prevailing lower rate at that time) on the value portion between £125,001 - £250,000, plus 5% charged on the slice of value between £250,001 - £350,000.

Further revisions were introduced in 2016: adding a supplementary percentage charge for purchasers of second or subsequent properties, ie not a first or sole home; and in 2018 to apply certain reliefs for first time buyers, as well as a complex arrangement for those buying into shared ownership properties. Further revisions have since been made, generally to increase the rate for corporate, trustee, and overseas-based purchasers. Of its many critics, Paul Johnson, Director of the Institute of Fiscal Studies, wrote following the 2016 improvements that they merely had the effect of amending a very bad tax into just a bad one (IFS, 2016).

2.2. The problems of SDLT

The main problem with SDLT in its current format is that it reduces housing mobility, and without raising much tax, (Andre, 2011; Best & Kleven, 2017; Hilber & Lyytikainen, 2016; Nicolai & Pelosi, 2019).

A study by Hilber & Lyytikainen, (2017) estimated that an increase in the rate of SDLT from 1% to 3% overall reduces household mobility by approximately 40% and incurs a social welfare loss of possibly more than 80% of the additional tax revenue raised, through causing a "substantial misallocation of dwellings": labour is less able to efficiently relocate near areas of greater economic demand; the elderly are less inclined to downsize once their families are no longer living at home with them; households with younger growing families are less inclined to trade up to large houses; plus the economic loss of all the ancillary building work and complementary household expenditures that typically accompanies house moves, (Best & Kleven, 2015, 2016, 2017).

Best & Kleven's (2017) study states that SDLT distorts pricing, volume, and timing of housing transactions, and they also calculated that during a brief period when the government temporarily eliminated the 1% SDLT applicable at the time, there was an increase of 20% in housing market activity as a consequence.

2.3. How Much Tax Does Residential SDLT Raise

In 2017 – 2018 residential property SDLT raised a total of £9.275bn for the UK as a whole (D'Mello, 2018). This represents 1.53% of the total tax raised for that year at £605.8bn (52% came from income tax + national Insurance, and 21% from Value Added Taxes).

The breakdown of these SDLT receipts was as follows:

- 97.3% derived from transactions in England (as opposed to Scotland, Wales, and Northern Ireland)
- 90% of this came from individuals, the remainder was attributable to purchases by corporates or trustees
- Of this, 77% related to purchases of sole dwellings, ie the balance related to purchases of second, third, or more dwellings (the data are shown at this level of granularity because different rates of SDLT apply)

This means that the amount of SDLT raised in 2017-18 on residential transactions in England *where the transactions were for the sole property of the purchasers* amounted to approximately **£6.254bn** (D'Mello, 2018)

This is the approximate figure that would be lost if SDLT was scrapped completely for this class of property transactions (I expand on this in Section 5.2).

2.4. How Does Council Tax (CT) Work

The present system of CT was first legislated for in Finance Act 1992 and came into effect in 1993. It replaced the previous (and nationally hated) so called "Poll Tax" which Prime Minister Margaret Thatcher had been responsible for implementing. It established an annual tax to be paid by all occupiers of residential property, based upon the market value of the property *in April 1991* – these outdated valuations remain the charging basis to this day, in spite of most present market values having risen between roughly 4 to 6 times their 1991 values, depending primarily upon the location of the property and hence the value of the underlying land. The index of average house prices in England as a whole rose by a multiple of 4.43 between April 1991 and April 2019, and in London by 6.16 (HM Land Registry, HPI Data Tables, figures for London taken July – July as 1 July 1991 was the first date the London-specific index is shown).

The original CT structure, which still applies today, specified eight property valuation bands, labelled A through H, with band D being the central reference point for calculating the relative tax rates for every other band. Band D is described as paying CT at 9/9ths rate (ie 1), band F pays tax at 13/9ths, and band H (the top-rated band) at 18/9ths, ie twice the rate of

band D. At its inception, Band H applied quite simply to all properties valued at over £320,000. As an example of the regressive nature of this tax today, in London for example, owner-occupiers of two properties valued at say £1m and £10m respectively are generally paying more or less the same CT.

Up until 2011, although charged out to taxpayers separately by each of the 300+ Local Authorities, CT was very much controlled by Central Government. The taxes were paid through to Central Government, rates were capped, various grants and subsidies were centrally managed, together with a nationwide redistribution system to channel funds between the various charging authorities to ensure that, for instance, those areas with a relatively poor taxpayer base (eg sparsely populated rural areas) would nonetheless receive sufficient tax revenue to be able to cover their expenses for provision of local services.

Following the Localism Act of 2011, and the Local Government Finance Act of 2012, Local Authorities were given much greater powers over managing local discounts for the poorer members of their constituencies, and central government redistributions were greatly cut back, leading to widespread divergence of discounting and subsidy policies amongst the set of charging authorities throughout the country.

In 2015 a further legislative amendment was brought in, the Adult Social Care Precept, to permit specified Local Authorities (those who were identified as providing adult social care services), to add a 2% or 3% supplement to their annual CT charge, which otherwise still remains capped with only inflationary increases permitted year on year.

2.5. The Problems with Council Tax

CT has been described as a very regressive tax (Crawshaw, 2009; Mirrlees, 2011; Murdie, 2014; IFS, 2015, 2017, 2019; Wightman, 2013), in that those people occupying lower value properties pay a much greater percentage of their property value in CT than those occupying higher value properties, and those on lower incomes pay a much greater proportion of their income on CT than those on higher incomes. In some cases Londoners pay significantly lower CT than people living in inexpensive rural areas, whereas their property values (and mean incomes) would typically be several times more than their rural counterparts. For example in 2018-19 the Band D tax in Kensington & Chelsea was £887 compared to an average of £1,335 across the country's Shire Districts (see Table E.).

CT in its current state is failing, not so much due to the tax itself, but because the property values it is based on have not been revalued since 1991, and it is simply not raising sufficient revenue for Local Authority needs (Local Government Association, June 2018, "Local government funding – Moving the conversation on"; Amin-Smith et al Institute for Fiscal Studies, 2019).

Some authors (eg Andre, 2011) have argued that CT should be linked to current property market values. There are two problems with this: firstly, CT is paid by property occupiers, who may not be the owners but merely the tenants, many of whom have a hard enough time affording their rent alone, never mind additional costs of renting such as CT (Crawshaw, 2009, Sanders, 2019). Secondly, owners of the most expensive properties would likely be faced with a sudden, huge, increase in CT demands that would in many cases be unaffordable (see Section 5.3).

Another anomaly at the heart of the structure of CT is that the tax is (nominally) based on property value but the revenue raised is for provision of local services such as schools, roads, waste collection and so on. Thus two adjacent households in identical property value bands, one with a sole elderly occupant and the other housing a family with say five children will be charged identical CT, although the latter household will be consuming far more local services than the sole occupant.

Nicolai and Pelosi, 2019, describe yet another anomaly: two identical houses that face each other on opposite sides of a London street paid CT respectively of £2,279 per annum vs £1,421 per annum due to the fact that they were situated within different London Local Authority Boroughs. This example is not unique and is made the more peculiar because the two Boroughs share many services such as waste management, and their resources such as schools and public parks are not reserved exclusively for the residents of their own Borough.

Until recently CT was discounted for people's second homes, and for empty dwellings, on the basis that there were no regular occupiers, and in these cases CT would be payable by the owners. This exacerbates the problem of a general housing shortage in England, see Section 3.

A third major distortionary element of the present taxation system is *the absence* of any Capital Gains Tax on a homeowner's sale of their main home. I expand on this in section 6.9.

3. Further Problems in the UK Housing Market

In this section I briefly summarise a number of other problems within the housing market overall, before proceeding to argue how my proposed tax changes, combined with other market reforms, could produce beneficial effects.

3.1. House Price Volatility and its knock-on effects on the Economy

Muellbauer, 2005, refers to the 'financial accelerator' effect of the way credit market imperfections impact macroeconomic fluctuations, as described by Bernanke and Blinder, 1992. He writes "The collateral role of property allows credit expansion and additional spending in upswings, thus fuelling booms. Asset price falls ... can worsen downturns via a credit crunch" (Muellbauer, 2005 p34). In the UK, household consumption is very sensitive to household wealth, and household wealth is very closely linked to property price rises and falls which, in turn, are sensitive to changes in short term interest rates and availability of mortgage borrowing and other types of credit. The perceived wealth increases linked to rising land prices thus lead to higher consumption within the economy, boosted by higher levels of consumer borrowing which are, ultimately, unsustainable, leading to sharp downturns.

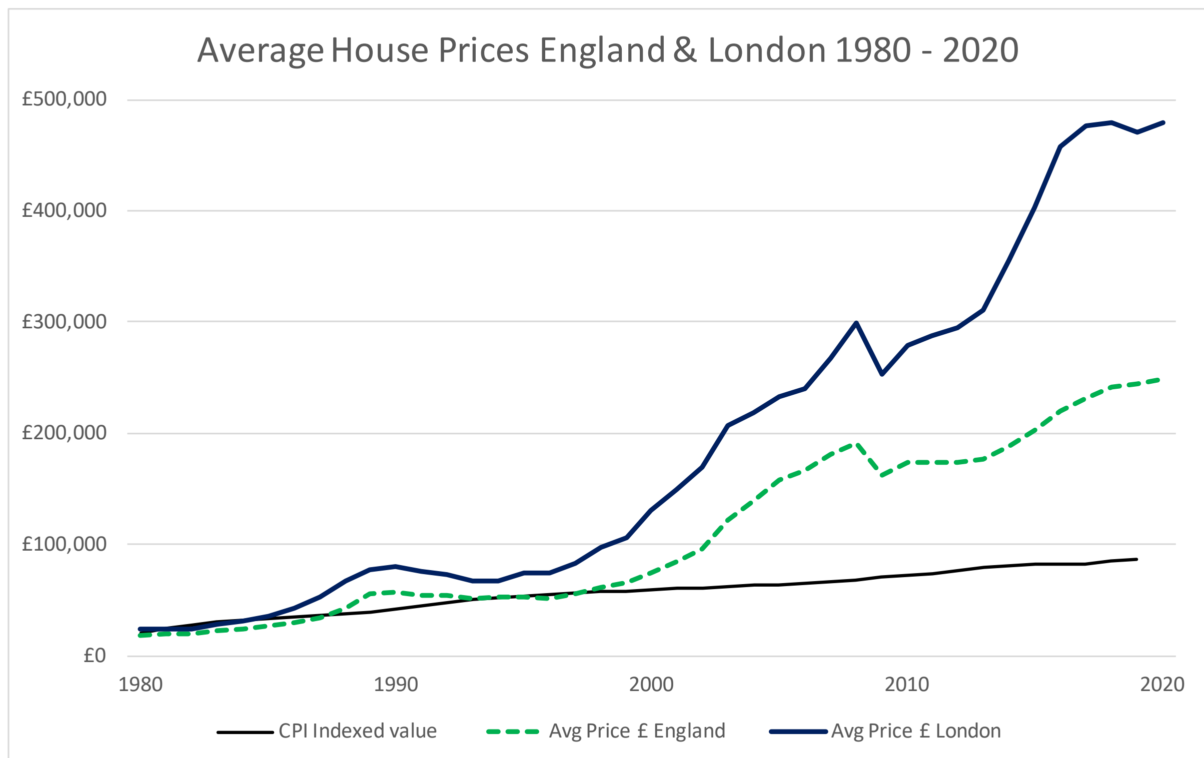
Muellbauer, 2005, also refers to the results of a previous study (Cameron & Muellbauer, 2001) which suggested a further link between relative house prices and wage setting within the overall economy, with rising house prices leading to increases in wage demands, which then feed into a higher prices inflationary spiral.

In the 1980s, after significant liberalisation of credit markets, the UK experienced a house price boom, followed in the early 1990s by a slump, causing "The bankruptcies of many house-builders, the collapse of training schemes, plant closures in the building supply industry, and unemployment of workers in the industry" (Muellbauer, 2005 p35) as well as much further hardship to households in general.

In its 2018 report on the UK's National Balance Sheet, the Office of National Statistics stated that in 2017 the value of land in the household sector was £4.1tn, representing 76% of the UK's total land value, and that this asset class had grown from being 21% of total UK net worth in 1995 to 40% in 2017. The report also describes how changes in land value are the major contributory factor to volatility in overall UK net worth since, if land is excluded from the time series data, it exhibits relatively stable growth. The report continues "Much of this volatility can be linked to periods of rapid growth in house prices" (Groves, 2018). Hilber & Schoni, 2016, also report on the high volatility (as well as just comparatively high prices) of UK house prices compared to other developed economies.

The Figure 1 graph below shows the degree to which house prices have risen in England as a whole, and separately in London, from 1980 to today, as compared to overall inflation in the UK as measured by the annual rate of CPI:

Figure 1



Source of house prices: HM Land Registry, HPI data from Table F. The line for CPI comparison has been generated by using a starting 1980 value of £21,207 which is the average of the 1980 average price indexes for England (£18,377) and London (24,037); the line is then plotted by applying annual CPI increases to the starting value on a compound basis using CPI figures from the World Bank.

As well as easy access to cheap credit, several other factors have driven property (ie land) prices up in recent decades:

3.2. Demand Side Factors

These include: a general population increase together with a changing demographic towards more people living alone; the attractiveness of housing as an asset class for corporations and individuals seeking a relatively secure rental income stream coupled with long term capital growth (Pattison et al., 2010).

3.2.1. Property for Investment

Certain locations and housing sectors, particularly the ‘prime’ London market for top end houses, and high-spec new build apartments, are seen as attractive investment options for overseas purchasers wishing to find safe assets to invest in, and often in order to remove their capital to a safer jurisdiction than their homeland. Many of these investment purchases result in their properties remaining empty, often for prolonged periods.

London, and some other major city centres, have also been seen as attractive investments for corporate landlords (Hodkinson et al., 2016) including Venture Capital Trusts and Family

Wealth Offices, as well as wealthy private individuals and other corporate investment vehicles. Their effects are felt acutely in the lower end of the rental sector since they typically aim to purchase whole apartment blocks, or multiple properties within a small area, and subsequently charge much higher rents than the tenants previously paid (Hodkinson, 2016). It has been estimated that in 2016, 18% of new-build homes sold in the UK were bought by overseas investors, with many of these properties subsequently lying empty, (Bangham, 2019).

3.2.2. Private Multiple Home Ownership

On top of this there is a marked divide between a generally older, wealthier, generation of home owners, and a younger generation who are unable to afford to purchase homes and are thus forced to rent. The older generation benefited from being able to purchase properties prior to their rapid price increases which commenced in the 1980s, from which time onward housing asset price inflation greatly outgrew wage increases, (Evans, 2009; Diacon et al., 2010; Crawshaw, 2009). Many of this older generation own more than one property: One in 12 adults in Great Britain owns an additional home, rising to one in six for the 55-64 age bracket; meanwhile four in 10 adults own no property at all, (Bangham, 2019).

3.2.3. Buy-to-Let

The predominant shifts in housing tenure over the past 70 years have been: a marked reduction in so-called “social housing” (rental accommodation for those on low incomes and/or receiving government benefit payments), and a marked increase in the private rented sector, (Pattison et al., 2010). The bulk of the private rental sector consists of so-called Buy-to-Let landlords who typically own between one and 30 privately rented properties. This market sector grew rapidly from the 1980s until just recently, on the back of two policy changes: a tax break permitting Buy-to-Let landlords to deduct mortgage loan interest from rental incomes at their marginal tax rate (typically 40%), together with the Assured Household Tenancy Act legislation of 1988, which gave landlords the upper hand in evicting unwanted tenants. The result was a boom in the Buy-to-Let mortgage market such that the private rental sector, after many years of stability, grew from approximately 9% of all households in the early 90’s to around 15% by 2009, (Pattison et al., 2010). This market sector trend has slowed however, since the tax benefit was first reduced in 2017 to grant relief at the basic rate of income tax only (typically 20%), and now been abolished altogether; plus bank lending has become generally more difficult to obtain since the 2009 banking and credit crisis.

3.3. Supply Side Constraints

Aside from the fact that new housing inevitably takes time to build, there are several other factors which choke off supply, both regulatory and commercially-based:

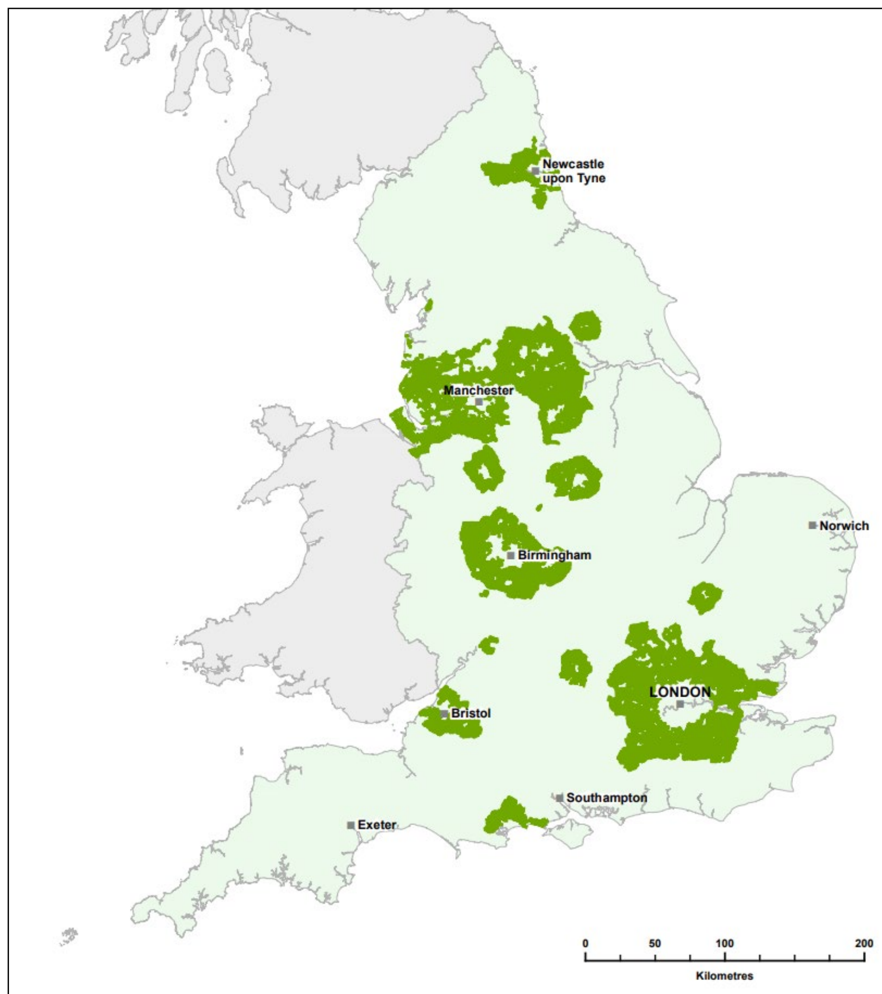
3.3.1. Planning Restrictions on Housing Development

The Town and Country Planning Act of 1947 permitted Local Authorities to designate specific areas of land as "Green Belt" where any form of development is banned. According to government publication the Green Belt serves five purposes:

"● to check the unrestricted sprawl of large built-up areas;
● to prevent neighbouring towns merging into one another;
● to assist in safeguarding the countryside from encroachment;
● to preserve the setting and special character of historic towns; and
● to assist in urban regeneration, by encouraging the recycling of derelict and other urban land" (Ferguson, 2019).

As at 31 March, 2019, the designated Green Belt land in England was estimated at 1.62m hectares, around 12.4% of the total land area, and situated around 15 'urban cores', (Ferguson, 2019), see Figure 2 below:

Figure 2
Map of Green Belt Zones, England 2018



Source: Ordnance Survey

The intentions are praiseworthy, however, as many commentators point out, some very persistently, (the Economist 16 Jan 2020, 3 Aug 2017, 11 Feb 2017, 30 Apr 2016, 24 Sep 2015, 9 Jan 2014, and in articles stretching back at least into the 1990s) much of this land is not what anyone would think of as 'green'. In their most recent article on the subject they cite as example the Green Belt location of Tottenham Hale in North London, which is next to an Underground Station providing efficient transport into Central London. Prima facie this would make a good location for new housing were it not classified as Green Belt - however, far from being 'green' this location contains a car wash. According to their research "Across ... five ... cities in England there are over 47,000 hectares of ... land, which is not particularly green, is close to train stations with a good service to their centres, and yet cannot be built on ... enough space for over 2.5m new homes at average densities" (Economist, 16 Jan, 2020).

The Green Belt land designations are a specific, extreme, form of the UK's outdated planning regulations, which are legislated by Central Government and then controlled through each Local Authority in England. Hilber and Schoni, 2016, go so far as to claim that the "fiscal centralisation and an extraordinarily rigid planning system ... make housing supply extremely unresponsive to changes in house prices, [cause] a high degree of urban containment, a severe housing affordability crisis, and a housing shortage, particularly for the young". Whilst "urban containment" might be considered a good objective, the complicated planning procedures plus a high degree of Local Authority discretion over each planning application contribute to a very slow, and unpredictable, planning process (Lyons, 2014). In addition, until recently Local Authorities had little or no incentive to permit housing development at all since the consequences entailed them providing increased services whilst the new tax revenues went straight to Central Government. Moreover the authorities are frequently subject to intensive lobbying from influential local residents with a NIMBY (not in my back yard) attitude towards any new housing in proximity to them (hbf, 2000; Cross, 2019; Sturzaker, 2011).

Hilber & Schoni, 2016, contrast the UK market with Switzerland's where fiscal policy is highly decentralised, local regional authorities have traditionally kept all locally raised taxes, and development is subjected to very clear sets of rules, with almost no aspects left to the discretion of the local planning officers. This system provides explicit incentives to authorities to permit development (where it meets the rules), and makes the development process far more predictable than in the UK/England where so much of the process depends upon negotiation with the authority and at the latter's discretion.

3.3.2. Owners of Holiday Homes

A proportion of second home ownership is attributable to wealthy city dwellers purchasing holiday homes in attractive rural locations, such as The Lake District and Cornwall. The scale

of this has had very damaging effects on the affected local communities (Wallace et al., 2005): prices have risen such that they are beyond the economic reach of locals, and the holiday homes stand empty for most of the year. Thus, although this might be considered as a demand side factor, its major impact is to artificially restrict housing supply in various popular holiday locations. Unable to find affordable housing of any sort, younger local people thus tend to move away from these areas, hollowing out the community, leaving it with insufficient workers for key jobs let alone any local commercial activity, schools and nurseries close for lack of children attending, even local shops, pubs, and other supply services are affected and have their share of closures (Wallace, 2005). To add insult to injury, the rules on CT rates meant that, since such properties were empty for long periods, their owners paid lower CT than local full time residents.

3.3.3. House Building Firms “Land-Banking”

In 2016 an Economist article reported that three of the UK’s largest building firms had been directly accused of sitting on plots of undeveloped land, waiting until prices improved prior to starting development, (Economist 24 Nov 2016). They reported that in 2015, whilst permission was granted for 250,000 new housing units, only 140,000 got under way. In recent years the economics of house building have worked in favour of the larger firms, with many small builders going out of business. The large firms tend to prefer large sites and, as quoted by the Economist, a study by Nathaniel Lichfield and Partners (Economist 24 November, 2016) a leading planning and development consultancy, suggests that as the size of a plot goes up the annual rate of building slows down, with the builders deliberately rationing supply so as to keep prices as high as possible. People thus accuse construction firms of deliberately rationing supply in order to push up prices. The evidence is by default only circumstantial and the builders deny any such behaviour, quoting planning regulation obstacles plus the need to maintain some degree of land bank in order to satisfy shareholders of their future deal flow. A number of formal reviews have all concluded that land banking does not occur (Barker, 2004; Callcutt, 2007; Lyons, 2014), however this has done very little to persuade the Local Government Association and general public out of their views (Wilson & Barton, 2020).

3.3.4. Lack of Social Housing

Social Housing is roughly defined as housing for the less well off who are unable to afford to purchase property or to pay commercial market rents. Social Housing began in the late 19th Century, with the housing stock owned by Local Authorities, expanded significantly after World War One and up to the late 1960s, at which time problems began to emerge in many of the Council (Local Authority) housing estates which were run-down, vandalised, and subject to high crime levels (Ravetz, 2001). The 1980 Housing Act marked a major turning point for the sector, permitting existing tenants to buy their homes from their local Council

at a discount, as well as initiating a process of selling homes to charitable organisations called Housing Associations. The total stock of Social Housing reached a peak of over 7m units in the late 1970's, and has since reduced by around 2m units. In today's market such homes are owned by a mix of Local Authorities, Housing Associations, and private landlords, housing around 16% of the population in England (Adam et al., 2015).

Government Policy relating to this sector has shifted significantly since the 1970s: 82% of government housing expenditure went towards social housing in 1975/76, which had reduced to under 5% in 2016/17. Today over 95% of such expenditure is on housing benefit and mortgage interest support, with a total of £22bn spent on housing benefit in 2017/18. But there are nonetheless around 1m households across the UK as a whole on waiting lists for the limited amount of available social housing (in 2017/18 there were 494,000 households in England classified as being in key vulnerable categories awaiting social housing), such people typically living in temporary, overcrowded, and unsanitary accommodation (BBC Briefing, 2020 with data taken from The Office for Budget Responsibility OBR, the Office for National Statistics ONS, UK Government Live Tables on Dwelling Stock).

3.3.5. Empty Dwellings

A 2019 House of Commons Library report (Barton, 2019) quotes MHCLG (Ministry of Housing Communities and Local Government) statistics putting the number of empty homes in England in October 2018 at 634,453, a 4.7% increase on the previous year. Of this total, 216,186 were classified as long-term empty, viz empty for longer than six months. By October 2019 the total had reached 648,114, a further increase of 2.2% over 2018's total (see Table J. Vacant Dwelling Stock statistics). Clearly, the measures currently in place aimed at reducing this unwelcome trend are not working.

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4. Land Value Tax – What is it and Why it would be beneficial

The arguments for a Land Value Tax can be traced back to Tom Paine (1737-1809), the English / American philosopher and political activist. He neatly described how personal property can only exist because of the norms and conventions of law and exchange which, being social constructs and maintained by the institutions of society, gives the latter a right to tax them. He is perhaps also the first writer to claim that "the value of improvement only, not the earth itself, is individual property" and therefore "every proprietor of cultivated land owes to the community a ground rent".

Ricardo (1772-1823) also espoused a monopoly rent theory for taxation to include a tax based on land ownership, but it was the American journalist and author Henry George (1839-1897) who put the concept most firmly on the political map in his book entitled Progress and Poverty of 1879. Writing in favour of LVT he said:

"The best tax by which the public revenues can be raised is evidently that which will closest conform to the following conditions:

1 That it bear as lightly as possible upon production – so as least to check the increase of the general fund from which taxes must be paid and the community maintained.

2 That it be easily and cheaply collected, and fall as directly as may be upon the ultimate payers – so as to take from the people as little as possible in addition to what it yields the government.

3 That it be certain – so as to give the least opportunity for tyranny or corruption on the part of officials, and the least temptation to law-breaking and evasion on the part of the taxpayers.

4 That it bear equally – so as to give no citizen an advantage or put any at a disadvantage, as compared to others" (George, 1879/[1911]: 290)

The notion gained political support and the UK Prime Minister Lloyd George introduced a version of LVT in his budget of 1909. He had strong support in Parliament from none other than Winston Churchill who said at the time:

"Roads are made, streets are made, services are improved, electric light turns night into day, water is brought from reservoirs a hundred miles off in the mountains — and all the while the landlord sits still. Every one of those improvements is effected by the labour and cost of other people and the taxpayers. To not one of those improvements does the land monopolist, as a land monopolist, contribute, and yet by every one of them the value of his land is enhanced. He renders no service to the community, he contributes nothing to the general welfare, he contributes nothing to the process from which his own enrichment is derived (Winston Churchill, 1909, quoted by Barker, 2003: 116)".

However, Lloyd George's budget was voted down in the House of Lords where the powerful land owning Dukes were (unsurprisingly) inflamed at the idea. He suffered a similar defeat at his second attempt in 1914 when its detractors were also able to argue that no register of land ownership was readily available upon which such a tax could be based. The attempts to maintain secrecy surrounding certain land ownership in the UK by wealthy (and usually hereditary) land owning families remain to this day, although they are gradually being eroded (Layard, 2018).

LVT is a tax on the economic rent deriving from land value. It is an annual tax levied on the owners of land (not the occupiers), and would be calculated on the *unimproved land market value based upon the most valuable permitted (or anticipated) use for the land in question*.

So the value of any buildings erected on the land would be ignored in the calculations, but where for example a parcel of undeveloped land was expected to receive planning permission and hence an uplift in value, the tax would be based on the expected uplift.

LVT is deemed efficient because it does not distort incentives to develop land, and equitable because it returns some of the economic rent to the people who created it - the Local Authority and its electors (McLean, 2006).

An LVT has been intermittently argued for by economists and political scientists ever since its origins, Barker 2004, Diacon, 2010, Mirrlees, 2011, Andre, 2011; Lloyd, 2009; Wightman, 2013, and is commonly included as a centrepiece of any major tax reform recommendations, Muellbauer, 2005; Mirrlees, 2011; Andre, 2011.

Muellbauer, 2005 and Andre, 2011 argue that since an LVT would remove the incentive to speculate in land and property it would greatly assist in stabilising UK land and house prices, and eliminate a major influencing factor of the boom and bust cycles which have so damaged the wider UK economy since the 1980s. With residential property currently accounting for around 35% of total UK wealth (ONS most recently published data, for 2018, total UK wealth £14.6tn) any significant volatility in prices in this market has a major macroeconomic effect.

Between January 1980 and January 2020 the average house price index in England as a whole rose from £18,377 to £248,271, and in London from £24,037 to £485,794, increases of 13.5 times and 20.2 times respectively (*www.gov.uk* statistical data set UK House Price Index: data downloads March 2020). Most of this increase is directly attributable to an increase in land values, as opposed to the cost or value of the buildings erected (Oxley & Haffner, 2010; Hilber & Lyykainen, 2017; Wightman, 2013). Over the same period UK average inflation rose by a multiple of 4.3 (*www.bankofengland.co.uk* inflation calculator).

Practically all of this wealth increase has accrued to private sector owners, those lucky or smart enough to have owned such assets. Those within society (the majority) who were unable to acquire residential property prior to the 1980s, either for economic reasons or simply because they were too young or had not been born, have not been able to share in the benefits of this fortuitous wealth increase. Nor has the UK Treasury earned any appreciable tax receipts from it, in spite of having been the agency of much of the land value increases. For instance, London's underground Jubilee Line extension, constructed during the 1990's, cost c£3.5bn, over 95% of which was funded by the government. Subsequent studies commissioned for Transport for London indicate that these costs could have been funded (at least in part) through a land tax, considering that property values in the vicinity of just two (Southwark and Canary Wharf) of its eight new stations rose by a huge £2.8bn as a result of the increase in amenity from the project (McLean, 2006).

Overall, the existing taxation system has been heavily skewed towards benefiting owner occupiers over renters, estimated by Diacon et al., 2010 as amounting to a £23.7bn tax advantage in 2007/08, based on the combination of zero taxes on both imputed rents and on any sales of owner-occupied property.

It has been estimated (Andre, 2011; and the IMF, 2011) that the introduction of a 1% per annum LVT would lower house prices initially by 4% on average, thereafter leading to much greater stability in future prices. Extrapolating, we might therefore assume that introducing LVT at say 0.05% might lead to a general reduction in prices of only around 0.2%. However, more importantly, we might also assume that the price stabilisation effect would still occur, on the basis that LVT was here to stay, plus it would only be revised upwards in future. When announcing the introduction of LVT the government could indicate its intended forward rate rises over the forthcoming few years so as to set market expectations accordingly.

A further very useful feature of LVT is that it is virtually impossible to avoid. All forms of tax spawn tax avoidance which, in some instances, takes on the form of a major industry in its own right, with the wealthy generally hiring talented and expensive accountants and lawyers to assist them in using loopholes to escape paying tax. Land however, is immovable, and cannot be hidden from sight, and therefore the only aspect available to a would-be tax avoider would be to attempt to hide true ownership in some manner. This invariably requires setting up a smokescreen of offshore companies and / or trusts to mask the ultimate beneficial owner's identity. In recent years governments have cooperated internationally to a far greater degree than in the past in tracing the ownership of assets and the shifting of profits worldwide, and it has become increasingly difficult for anybody to truly hide their ownership status. However, in the last analysis, it would be possible in all cases to identify at least part of an intermediate chain of ownership, sufficient for government to lay its LVT bill at the door of some company or trust, whilst legislating that if an LVT bill went unpaid for a specified period (eg three, or five, years) then government would have the right to repossess the land. Such a threat is of course uncharacteristically draconian for a self-styled modern democracy, and might bring forth a number of vocal objections, however the only people likely to strongly object are the small minority of the very wealthy, precisely those seeking to avoid LVT – QED as they say.

4.1. Experience of LVT in Other Countries

Varying versions of LVT have been implemented in several countries (or areas within countries), including Australia, New Zealand, Denmark, Estonia, Germany, Finland, and some parts of the USA.

Denmark has operated a version of LVT since 1924, with rates varying between 0.6% - 2.4% per annum depending upon the category of land use (Barker, 2004), with land revaluations every two years. This has been credited with providing stability to house prices and, coupled with market regulation, for removing speculation from the housing market (Section 1 (1) of the Acquisition of Real Property Act stipulates that persons who are not residents of Denmark and have not lived in the country for a total period of five years previously may only acquire title to real property after having obtained permission from the Ministry of Justice), (Andersen, 2019).

Estonia levies LVT on all land owners, with rates varying from 0.15 to 2.5% per annum depending upon the type of land use (Republic of Estonia Tax and Customs Board, 2019). Basing its property taxation entirely on land values contributes to Estonia's taxation system overall being ranked the most competitive in the developed world (Lundeen & Pomerleau, 2014)

New Zealand operated a property tax system based predominantly on land values for most of the 20th Century, although during recent decades the main urban charging authorities have reverted to a property tax based upon total property market value, rather than underlying land value, whilst much of the remainder of the country's authorities retain more of a land value based system. The reasons for this seem to be complex and beyond this paper's scope (McCluskey, et al., 2006).

Finland's current property law, dating from 1993, includes nationwide taxation on both land and built structures, with different rate bands for each type of asset. Residential land rates vary between 0.6% - 1.35% (and for comparison housing structure rates vary between 0.39% - 0.9%), (Peltola, 2017). As in all other examples such taxes are raised, and most importantly retained by, the local authorities. However, central government is responsible for management of a sophisticated land valuation programme for the country as a whole.

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5. Discussion & Proposals

5.1. The Practicalities (and some Difficulties) of Calculating and Charging LVT

A database will need to be established, based upon existing Land Registry and Ordnance Survey mapping, showing the size, location, and ownership of all residential land and buildings. Land values need to be distinguished from total property values, and special measures used for leasehold apartment blocks, and potentially for garden areas.

5.1.1. A Land Ownership Register

More than a century after Lloyd George's second abortive attempt to introduce LVT through Parliament, the same two main impediments still exist.

A Register will be needed for every bit of residential land in the country, recording size and ownership, and will need to be revalued regularly, say every 2 or 3 years. However, unlike in 1914, there exists today a detailed mapping of every bit of land in England, which shows, at detailed level, every residential building and garden in the country. In addition, HM Land Registry has a database recording the address, size, and legal title holder of over 99.5% of all residential land in England (this has been verified by personal correspondence). This means that, were there sufficient political will, the job of producing a complete residential land register could be relatively easily accomplished using today's computerised tools.

5.1.2. How to Establish current Land Values per Property

The next step is to establish the current market value of each and every residential land parcel, and link this to the owner for billing purposes.

For every residential property the land value is a percentage of the total market value of the land plus buildings. This percentage varies widely from low land value areas, eg sparsely populated rural areas, where the land might only be around 25% of total property market value, to parts of Central London where the land might represent as much as 75% or more of total property value.

The first step in deriving land values is to get an assessment of total market values, including any buildings on the land. Such values are regularly offered to those considering selling their properties, with local area estate agents possessing the expertise and local knowledge to be able to deliver market valuations for every property within their sales territory. If a government department was given the task of creating a national database of such values it could readily put the task out to tender, area by area, asking local estate agents to tender for the job of providing a set of valuations for all properties in specified post code districts. Two or three such agents could be chosen per area, measures put in place to prevent collusion between agents, and between agents and owners, and then the average value taken from the various figures supplied. To prevent collusion spot checks could be carried out to compare agent-valued sites against actual sales data for local comparable properties. Online sites such as www.primelocation.com show market asking prices of properties in all parts of the country, whilst the Land Registry records the certified completed sales prices of all properties sold. Also, given that the chosen agents would be paid for their services in providing the necessary data, it would be against their interests to cheat in any way because, if found out, they would undoubtedly lose their supply contract and could also face a stiff fine.

Data from recently completed sales is always used by estate agents in updating their views of current market prices in their areas, and this data could also be used when setting the recorded valuations, as a yardstick or reasonableness check.

Having established a set of current market values per property there are then two relatively straightforward methods of deriving the underlying land values:

The majority of property owners have a buildings insurance policy (mortgaged properties are required to do so by the lender and most owners of unmortgaged properties carry such insurance voluntarily). These policies specify the estimated cost for reinstating all the built property on any land, with the figure being updated annually upon insurance contract renewal. Insurers typically use a reinstatement cost inflation figure linked to general construction industry price inflation. Therefore, in all cases where owners have such insurance in place the buildings reinstatement figure can simply be deducted from the total market value leaving the land value as the residual.

Where there is no buildings insurance in place a second method of establishing the value of the buildings is to refer to local land and property surveyors, again using the specialists with suitable knowledge for each local area of the country. These surveyors all have rule of thumb figures for the costs of reinstating buildings in their area, based upon size and character of the buildings, ease of access, and any complication such as basements. For instance, the general figure currently used for property within the M25 ring road is £300 per square foot, or £350 if the property has a basement; for Central London, period style properties, the figure is £500 - £1,000 per square foot (with an absolute maximum of £1,500), which takes into account not only the style of property but the extra costs associated with the difficulties of access into the centre of the city. By contrast, a specialist local surveyor in Bournemouth uses a figure of £250 per square foot, the lower figure reflecting a combination of less expensive materials used plus lower wages for builders outside the London area. These figures are necessarily only rough guidelines, however they are supported by a long history of professional use and will effectively cover most types of buildings in each area as required.

Local surveyors' expertise can also be used in rural areas where there might be a dearth of local estate agents to provide market valuations, and indeed surveyors are frequently deferred to and actually hired by people selling and/or buying in rural locations, sometimes instead of estate agents.

5.1.3. How to Calculate and Charge LVT on Leasehold Apartment Blocks

These present complications, albeit not insurmountable.

In many blocks the freehold is split from the leases and held by a separate owner. LVT would need to be apportioned between the leaseholders on the one hand, and the freeholder on the other. In large blocks an added complication is that the leases are likely to vary in length from apartment to apartment.

The valuation of each of the leaseholds could typically be carried out by the 'standard' method of assessing market value of the property and deducting the buildings reinstatement value given by the insurance policy (generally all such leaseholds are required to carry such insurance as a term of their leases). Depending upon the size of the apartment block there might be just a single buildings insurance policy for the building as a whole, in which case the reinstatement value it specifies could be split between apartment owners based on the relative sizes of apartments. In any cases where buildings insurance is absent, surveyors and insurance experts could be contracted to establish the required figures.

Freehold valuations are more complex and regarded somewhat as an 'art'. Whilst there is a market for sale/purchase of such freeholds between (mostly institutional) investors it is thin and lacking sufficient data for the purpose of valuing most freeholds.

There is however copious material written on the principles behind freehold valuation (eg Armatys et al., 2009), together with much case history. This follows The Leasehold Reform Housing and Urban Development Act 1993 which gave individual leaseholders rights to a) extend their leases by a set 90 years, and b) the right to "collectively enfranchise" their building's freehold (ie enforce a purchase of the freehold) where 50% or more lessees vote to do so.

The published guidelines (Leasehold Advisory Service, 2019) list the components comprising a freehold's value as:

- income received from ground rents
- reversionary value on expiry of the lease(s)
- the marriage value[1]
- value of other interests, eg commercial properties, garages
- "injurious affection" (ie compensation for other losses)

The last two points illustrate that each case needs to be considered on its own merits, and the overall complexity and bespoke nature of the process imply that an arbitration procedure will be required for freehold owners to appeal to wherever they object to their

[1] Marriage Value is the increase in total combined value of a leasehold and freehold interest in a property when a leaseholder either extends their lease or purchases the freehold

initial valuation. The details of such calculations are beyond the scope of this paper, however, potentially the most important factor determining the values derived is the choice of discount rate applied to the first two items: the net present value of both the foregone ground rents and, more importantly, the reversionary value. For instance, consider the following table of reversionary freehold values on a hypothetical block of apartments whose total current leasehold values amount to £10m, and with terms of either 99 or 50 years remaining:

Table 1
Reversionary Values for £10m of Leases with 99 and 50 Year Terms

Term	Discount rate	Discount factor	Reversionary value
99 Years	3%	0.05359	£535,938
	5%	0.00798	£79,847
	8%	0.00049	£4,909
50 Years	3%	0.22811	£2,281,071
	5%	0.08720	£872,037
	8%	0.02132	£213,212

The figures illustrate the huge variation in the reversionary (and hence taxable) value resulting from even small differences in choice of discount rate.

In a landmark case in 2007 (Earl Cadogan v Sportelli, 2007), the Lands Tribunal ruled that an appropriate so-called deferment rate for blocks of apartments was 5% (based upon the formula: deferment rate = risk free rate + a risk premium – the real growth rate). However, the basis of the Tribunal's calculations has since been questioned, and challenged in a number of more recent cases (Harrison & Lonie, 2016)

It should be borne in mind that, in all cases to date, the purpose of establishing a freehold value has been to set a sale/purchase price, not to determine a taxable duty. The best way to establish a fair discount rate for nationwide LVT purposes would probably be to appoint a panel of suitably qualified surveyors, land valuers, and investors to hammer out an agreed rate (with its rationale published for transparency), and for this to be reviewed at say three yearly intervals, at the same time as land values are revisited.

Once a suitable valuation method has been confirmed, and freehold values assessed accordingly, then LVT would simply be applied to the total freehold value, at a rate depending upon the status of the freehold owner, viz domestic, non-resident, corporate or individual.

Armed with all the above data it would then be a relatively straightforward task for government to set up a division within HMRC to issue bills and collect the LVT tax revenues using the online systems already in use, with extensions covering the extra details required.

5.1.4. A Potential Problem with Gardens

My proposal is to charge LVT on the market value of the total residential land area owned per dwelling, including any garden area. Such gardens will be valued at residential land rates, ie at the same top level rate as the land on which the building(s) sit. Owners of property with large gardens might then have a potential incentive to sell off a portion of their garden for a purchaser to build a new dwelling on it. The reduction in value of their own property (resulting from such a sale) would probably be more than offset by the combination of the windfall income from the sale plus the future reduction in LVT based on their lower property value.

Maintaining gardens, especially in cities and other major urban areas, is generally considered a positive externality for a number of reasons: lower density housing and access to gardens improves general quality of life compared to more dense housing; gardens assist biodiversity, large gardens in particular, especially where they include various types of trees, hedges, and a wide variety of plants; hedges are one of the best (and natural) forms of pollutant absorbers and 'sinks'; and gardens provide much needed soak-away for periods of heavy or prolonged rainfall (which are becoming ever more frequent, with blocked or overloaded drains and sewers constituting an ever growing problem for city planners as more and more areas are concreted over).

Therefore measures would likely be needed to prevent such garden area sales. I suggest three possible options, which could be implemented in any combination:

Gardens could be subject to a lower rate of LVT, eg half of the normal rate. In order to be able to administer this, the data on land use would clearly have to be recorded and maintained at the granular level showing gardens separately from built areas. The Ordnance Survey mapping of the country does permit this, and indeed appendix Table D. specifically shows this land use split, per Local Authority. However, aside from the increased administration burden of doing this, the amount of LVT raised would substantially reduce overall unless its starting rate were higher which, in turn, would 'penalise' home owners without gardens in the more expensive cities. As Table D. (Sheet P400) indicates gardens account for over 81% of residential land use for England as a whole. But, as a cursory examination of the data suggests, and as might be expected, the Authorities with greater areas of gardens tend to be the more rural ones where land is generally cheaper. It would

therefore also be possible to charge a lower LVT rate on garden areas only within certain designated city areas, reflecting the greater benefits conferred on the overall populations in these areas. This would considerably reduce the potential LVT 'lost' to gardens, but might well lead to arguments about which areas should qualify for the discount and why.

A second potential measure could be to stipulate, when LVT is first announced, that it will be based upon the total existing land owned per person at the date of announcement, so no reductions will be made for people subsequently selling off a portion of their land in an attempt to reduce their LVT; and, coupled with this, defining LVT as a tax that will have upward revision only (an exception being the case of landlords – see section 6.8).

Exceptions could be made for garden sale transactions already in progress, and other special cases. Furthermore, announcing LVT as an upward revision only tax is unlikely to ever be an issue on a relatively small island with a large population such as the UK.

Thirdly, a relatively high rate of tax could be introduced to apply specifically to proceeds from the sale of garden areas for housing development, so as to reduce any windfall gains otherwise arising.

When I started writing this paper no one had heard of Covid 19, a few weeks later it dominated news headlines globally and now, three months on, every major world economy has suffered the biggest negative shock ever experienced. UK borrowings are at unprecedented levels and, whilst policy will need to be carefully aimed at re-stimulating the economy, the need to raise taxation has never been more acute. The pandemic has also put into ever more stark relief the huge gap in welfare between the poor and the wealthy, making it incontrovertible that it is high time the taxation system was used more progressively to rebalance welfare throughout the nation. The need for Local Authorities to raise more revenues existed before Covid 19 (Local Government Association, June 2918; Amin Smith & Phillips IFS, 2019). Now, after the economic damage to almost the whole of the UK's business sector, Local Authority revenue from business rates has fallen significantly and is likely to take a long time to recover, exacerbating their need to raise more revenue from elsewhere. Calls to implement wealth taxes in the UK are now being voiced daily in the press. My data analysis shows why it is not practically feasible to simply replace CT with LVT, but my arguments show why it is perfectly possible, and desirable, to add LVT as a new tax, it being the most 'efficient' and fair form of wealth tax there is.

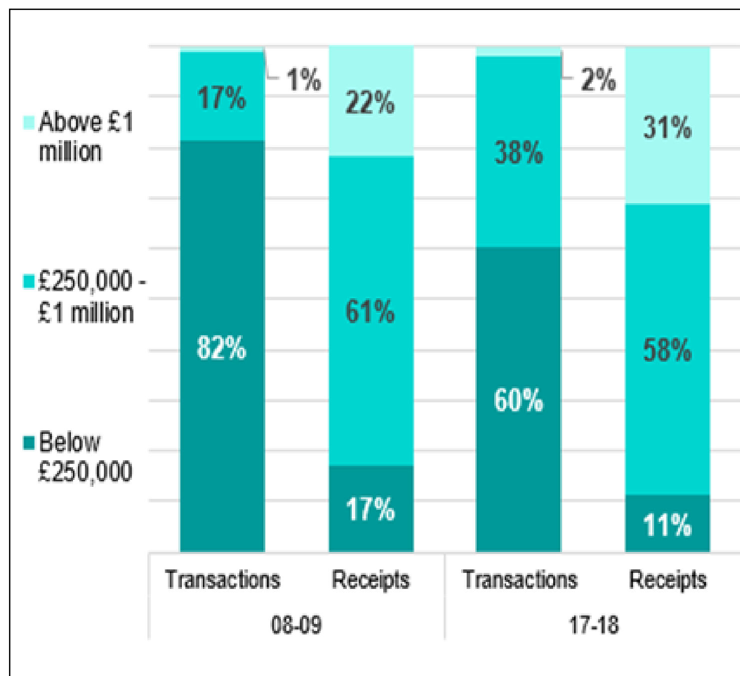
5.2. SDLT

Referring to Section 2.1 above we saw that the total SDLT in 2017-18 derived from sole home purchases was £6.254bn. Looking now at the more granular detail of how much SDLT

was raised from each property value band we see that approx 31% was raised on property values above £1m where the average SDLT rate charged was around 10%, and 58% of the SDLT revenue came from properties in the value range £250k - £1m where the average SDLT rate charged was 5%, as shown in the chart below:

Figure 3

SDLT residential transactions and receipts by price band, 2008-09 and 2017-2018



Source: HMRC, 2018

If the SDLT rate for all sole property transactions was reduced to 1%, the amount of SDLT lost would be approx £174m from the higher value band (reducing the rate from an average of 10% to just a flat 1%)+ £145m from the lower band described above (reducing the rate from 5% to 1%)[2]. This is a total loss to the exchequer of only around **£319m** per annum, and this would be my proposal: Do not scrap SDLT but *where the purchaser is buying their sole main residence reduce the rate to a simple 1%.*

One might ask, why not scrap SDLT altogether on such purchases? There are several reasons: firstly, it does still raise an appreciable amount of tax revenue, even at this low rate; secondly, removal of the tax altogether would require some rationale for such an exemption, (see Section 5.9 below), when a level of 1% would be sufficiently low to achieve

[2] The above calculations are simplified estimates since we do not have sufficient data to make more accurate calculations. The applicable rates of SDLT in the year were 2% on value range £125k-£250k, 5% on value range £250k-925k, 10% on value range 925k-£1.5m, 12% on value >£1.5m. But furthermore, if the rate was cut to a flat 1% we could confidently expect transaction volumes to rise as a result, yielding a proportionate increase in tax revenues, ameliorating the losses associated with the rate reductions.

its purpose; and thirdly, retaining it at some level makes it much easier to flex the rate in future should circumstances require it, as opposed to abolishing it up front but later trying to reintroduce it for some reason.

I believe this tax change would completely remove the financial tax obstacle to people moving house, and at a relatively low cost. The higher rates of SDLT currently payable by purchasers on a second property, by non-resident, corporate, and trustee purchasers, should all remain in place and, in some circumstances, even be increased (see section 5.7).

5.3. Why LVT can't simply replace CT

Proponents of LVT have stated that one of the major impediments to introducing it is the difficulty of replacing CT with LVT, because of the huge shift in 'winners and losers' as a result of such a dramatic change in the basis of taxation.

For LVT to raise sufficient tax in total (ie roughly equivalent to the overall amount raised today via CT, and SDLT with my proposed change above) the rate of LVT would have to be around 0.9%. This would be unaffordable to many owners of high end property – it would mean an increase in annual tax by a multiple of between around 5 to over 50 times in one hit, as shown in Table 2 below. Owners of property in the current top two CT Bands, G and H, would almost all be affected by such a sudden increase. According to government statistics published in 2018 there are 993,000 such properties in England, with around 276,000 of these in London (Guiblin, 2018 Valuation Office Agency, see appendix spreadsheet Council Tax Stock of Properties).

Table 2
Comparison of Band H Current CT vs LVT at 0.9%, 0.05%, and 0.2%

Property description	Property Value	Est. Building Cost per sq ft	Estimated Land Value	Current CT per annum	LVT @ 0.9%	LVT @ 0.05%	LVT @ 0.2%
	£	£	£	£	£	£	£
5 Bedroom House in Wimbledon	3,500,000	350	2,325,000	3,279	20,925	1,163	4,650
8 bedroom House in Kensington	30,000,000	1,200	20,000,000	2,474	180,000	10,000	40,000
6 bedroom House in Hadley Wood	5,000,000	1,000	3,000,000	3,392	27,000	1,500	6,000

Sources: property values are taken from the www.primelocation.com website for specific properties currently for sale; the estimated building cost per sq ft is assumed as in the top quartile (therefore lowering the estimated land value); current CT is as published online by each Local Authority.

Also, the disparities between high land value areas and low land value areas would severely disadvantage the Local Authorities in low land value areas whose income, if reliant solely upon LVT, would drop dramatically as shown in the examples below:

Table 3
Examples of Local Authority Winners & Losers were LVT to Replace CT

	Amount of CT collectable 2018	LVT per annum @ 0.90%	LVT per annum @ 0.9% minus Collectable CT	LVT per annum @ 0.9% as % of Collectable CT
Local Authority	£000s	£000s	£000s	%
Birmingham	362,218	115,804	-246,414	32
Sheffield	233,985	72,782	-161,203	31
Barnet	203,525	724,211	520,686	356
Enfield	145,772	635,933	490,161	436

Source: Table B. Council Tax received per Local Authority compared to LVT Receipts

This is why my proposal is to ***keep the existing CT and implement LVT on top of it, starting at a very low rate, eg 0.05%***, with planned annual increases at a slow rate, eg 0.025% - 0.05% per annum. This would avoid damaging those Local Authorities with relatively low LVT catchment populations, since the new LVT would be additional to their existing CT revenues, and also make the tax increase affordable to owners of properties on high value land areas. In Table 2 above I have chosen LVT at rates of 0.9%, 0.05%, and 0.2% in order to show that:

- a rate of 0.9% would be unacceptable for owners on the highest land value areas
- a starting rate of 0.05% is certain to be acceptable to all property owners
- increasing the rate (gradually) from 0.05% up to 0.2% is likely to be acceptable as well (it might be thought that annual LVT of £40,000, as shown in Table 2 for the house in Kensington is too high to be acceptable, however, anyone who can afford to buy a property for £30m is likely to be able to afford such a rate of LVT).

There would nonetheless still be a marked divergence between Authorities in the amounts of LVT revenue raised. For instance, at a starting rate of 0.05%, the London Borough of Westminster would raise £30.6m whilst the City of Birmingham would raise only £6.4m per annum.

An initial rate of 0.05% applied to all property would raise approximately £1.6bn across England as a whole, more than making up for the £319m loss of SDLT described above (see section 5.2). Meanwhile, LVT rates for second homes, non-resident and corporate-owned properties, and empty homes, should start higher, and also increase faster per annum, providing the incentive for their owners to get these properties into productive use or to sell them.

When LVT is introduced government could announce planned annual rate increases of 0.05% for say three to four years, with a land revaluation exercise to take place after three years. The whole subject could then be reviewed, taking into account all of LVT's effects at that time.

5.4. Examples

5.4.1. The author's house in Wimbledon, London: market value c£3.5m, buildings insurance £1.175m, land value c£2.325m. Existing CT is approx. £3,280 per annum (which is 0.14% of the land value).

Charging LVT at 0.05% per annum, the additional LVT would be £1,162 in first year, perhaps doubling to £2,325 in year two. If LVT were to increase at a steady rate of 0.05% per year the LVT payable after four years would thus be £4,650. If CT increased by 4% per annum (as per its recent trend) it would be £3,837 after four years, resulting in a combined total annual property and land tax of £3,837 + £4,650 = £8,487. (This assumes of course that there is no change to the land value during this period, but since one of the expected effects of LVT is to curb land price volatility it is reasonable to assume that there would not be any significant change in this time period, indeed the value might even fall). This would be an increase of approximately 2.6 times the current level of CT.

Informal conversations with neighbours and local estate agents suggest that an increase in local taxes of this size would be acceptable to the people affected, most of whom readily appreciate that they have not been paying sufficient local taxes for many years (ie not sufficient for their council to maintain and upgrade local services properly for the total population within the Borough).

5.4.2. No. 41 Upper Grosvenor Street, London W1 was purchased in 2007, through an offshore company ultimately owned by the son-in-law of the president of Kazakhstan, for £28.5m on a long lease. The property had been empty for a number of years and has remained empty since, although the owners successfully fought and won a legal action to purchase the freehold as well from the Duke of Westminster, (Shrubsole, 2019). A reasonable estimate for the present market value of this property is at least £40m, with a land value of around £30m. Annual LVT, starting at a rate of say 0.1% for non-resident/corporate owners, would be a 'mere' £30,000. For such a case, where the property is not only owned by an offshore company but is also sitting empty, I would propose an even higher starting rate of LVT, say 0.25% or 0.3%, yielding £75,000 - £90,000 per annum.

5.4.3. A small house for sale in Colliers Wood (Borough of Merton, the same Borough as example 1) today at asking price of £440,000 is in CT Band D, with an annual CT charge of £1,548 for 2019. The house's floor area is 529 sq ft, so the estimated rebuild cost at £300 per sq ft would be £159,000, suggesting a current land value of £281,000, which would incur LVT of £141 per annum at the proposed starting rate of 0.05%. LVT of this sort of level would not impact upon the house sale value in any way.

5.4.4. The Dower House near Winchester is a 6-7 bedroom Grade II listed country house for sale, with 5.07 hectares of land, at a guide price of £6m (Knight Frank estate agents). The total floor area is reported as 9,365 sq ft and, as a Grade II listed building it can be assumed that the rebuild cost per sq ft would be at the top end of the scale at around £500 per sq ft, giving an estimated total of £4.68m. Thus, even if the entire 5.07 hectares of land was to be rated as residential garden (which it would not, a considerable part would probably be rated as non-residential) the land value of this property would be a maximum of £1.32m, generating LVT per annum of £660 at the rate of 0.05%, growing to £2,640 after four years (assuming yearly rate increases up to 0.2% as per above example).

5.4.5. A detached house in Kensington for sale with guide price of £30m and estimated land value of around £20m (see Table 2 above). Here, current CT is £2,474 per annum, LVT at 0.05% would initially add £10,000, rising to £40,000 per annum after four years using the LVT rate increases suggested above.

Example 5.4.4 raises the general issue regarding how to determine, for large country estate properties, how much of the land area is to be classified as residential (ie as garden), as opposed to commercial or agricultural. Given the bespoke design of such properties this would need to be determined by a process of negotiation on a case by case basis, but the number of such properties involved would not render this task too onerous.

Example 5.4.3 illustrates that for lower and average priced properties the annual LVT at the rates being advocated would add a relatively small amount to people's existing CT bills.

5.5. Measures to Assist Asset Rich / Cash Poor Homeowners

It is to be expected that there will be a number of homeowners, especially amongst the retired elderly population, who live in properties which they purchased many years ago and which have since experienced large increases in value, primarily attributable to their land

value. Such people will not necessarily be able to afford their annual LVT, or perhaps not in full and not over an extended number of years.

The most obvious solution for such cases is to permit the LVT to roll up as a debt on such owners' estates, to be payable upon the earlier of a house sale or the owners' death(s), and according to individual circumstances, eg some elderly people's house sales might be to free up the cash required to fund care home expenses, so a balance would need to be met between this need for cash alongside any LVT debt that had accrued. Interest could be added to any such accruing debt at a simple inflation rate.

A market has been in existence for some years to enable 'home equity release' whereby particularly elderly home owners are able to sell a proportion of their property's equity value whilst remaining living in the property until death. This market could potentially assist with the funding of LVT but would require a detailed analysis to establish the parameters and changes needed for successful operation.

5.6. Redistributing Some LVT Between London Boroughs

As mentioned above, the revenues raised by LVT will vary greatly amongst England's Local Authorities. Some, especially in parts of London, will receive especially large annual revenues.

Table 4
Comparison of Wealthy and Poor London Boroughs

London Borough	No. of long term vacant dwellings (2018)	No. of households on Local Authority waiting lists (2018)	Waiting list No. as a multiple of vacant dwellings	Band D Council Tax 2020/21	Band H Council Tax 2020/21	Total LVT @ 0.05%	Total LVT @ 0.2%
Islington	621	14,469	23.3	£1,548	£2,432	£11.9m	£47.6m
Lambeth	920	23,364	25.4	£1,445	£2,890	£14.5m	£58m
Tower Hamlets	634	18,808	29.7	£1,392	£2,785	£6.8m	£27.2m
Westminster	304	3,907	12.9	£780	£664	£30.6m	£122.4m
Kensington & Chelsea	1,115	3,330	3.0	£1,237	£2,474	£43.7m	£174.8m

Sources: data on vacant dwellings and households on waiting lists taken from Table J., the ultimate source being The Ministry of Housing, Communities and Local Government; Band D and H CT figures are published online; the LVT figures are taken from Table A, as per my calculations.

The wealth gap between rich and poor London Boroughs, and London's associated housing problems, are illustrated in Table 4 above. The relatively poor Boroughs of Islington, Lambeth, and Tower Hamlets have proportionately many more households on the local Council housing waiting list than the richer Boroughs of Kensington & Chelsea and Westminster. And, not surprisingly, land values in the poorer Boroughs are far lower than in

the richer ones. Assuming LVT has been introduced, I believe an argument can be made for the richer Boroughs to contribute a portion of their LVT receipts into a 'pot' to be shared amongst the poorer Boroughs, specifically for the purpose of alleviating the housing problems in the latter group. Such a redistribution would benefit the richer Boroughs as well since most of the key workers required to run public transport, staff shops and restaurants, clean the streets and hospitals, and provide other services used by the wealthy, cannot afford to live in the rich Boroughs. It therefore benefits the wealthy if this labour force can readily find affordable (and decent) housing locally, rather than having to live far away and endure long (and costly) commutes to work. Redistributing tax in this manner would be no different in principle from central government's collection of taxes which are then used to provide various services for the less well off. Within London, such a system as proposed could be administered by the Great London Authority under the auspices of the Mayor's office.

The wealthier Boroughs should also be given targets to increase the amount of social housing they provide and, especially in the central London areas, to eradicate homelessness and rough sleepers. Several recent news reports (www.theguardian.com 27 Apr 2020, 5 May 2020) have highlighted the plight of many low-paid workers in non-secure jobs such as city centre restaurants, coffee bars, theatres, and so on, having been made homeless after losing their jobs (as a result of the Covid 19 induced lockdown) and being unable to pay their rent. These people are currently reliant upon the charity sector for support since they do not qualify for furlough payments from the government, and the central London Borough Councils do their best to ignore the problem. Indeed for many years the worst affected Councils have done their best to export their homeless problem by forcibly sending such people to other parts of the country (www.theguardian.com, 4 Nov 2012, 14 Apr 2017, 29 Oct 2018, 16 Mar 2019).

Moreover, a visible wealth redistribution as proposed above might go some way towards reducing the resentment felt by many residents in the poorer locations, which is unavoidable when they compare their own, often inadequate, housing to the lavish properties of the wealthy living in close proximity to them.

5.7. Using LVT to Incentivise Full Use of Existing Property & Discourage Non-resident, Trustee, and Holiday Home Ownership

To combat potential 'land-banking' by developers the rate of LVT on land they owned but which was not under development could be somewhat higher than the 'base' LVT rate applied to owner-occupiers. Moreover, if the LVT rate on such undeveloped land was programmed to rise rapidly at say six monthly intervals it would send a strong signal to developers to get started. This use of LVT would need to be accompanied by further measures in order to prevent Local Authorities stonewalling developers and merely

collecting the high LVT being charged to them. So where planning permission has been granted, or is going to be granted, timescales should be agreed between the Authority and the developer for a) starting development, and also b) the schedule for completing and releasing new housing units, right up to full build-out.

Similar higher LVT starting rates, with more frequent increases, could be applied to non-resident, trustee, and holiday home owners. The specific rates, and increase schedules, could be set as desired, for example to potentially price large offshore corporate purchasers out of the domestic market altogether. Central government could also, as they do now with CT, allow each Local Authority some leeway regarding the level of increased LVT rates they might wish to impose. This would make sense given the widely varying demographic amongst the 300+ Local Authorities. For instance, in rural locations where holiday home ownership is a particularly severe problem for the sustainability of the local community, Authorities might wish to start LVT at say 1% per annum, rising steadily to say 3% or even higher. This would provide an incentive for such owners to sell, and to sell to local residents who would then pay only the 'base' rate of LVT. Concessions could be built into this system where such owners agreed to grant long tenancies to local families at affordable rents (affordable in relation to average local incomes). This could help to retain the necessary labour to fulfil key jobs and keep the community going, since such workers would in many cases be unable to raise the capital and mortgages required to purchase local homes outright.

5.8. The possible problem of landlords passing LVT on to tenants if the rental market is inelastic and not sufficiently competitive, perhaps at local levels

It is likely that there would be at least some locations where inadequate rental supply could permit landlords to fully pass on the cost of LVT to their tenants in the form of rent increases, unless there is some form of regulation preventing this.

Rent caps on rent increases may therefore be necessary, restricting increases to CPI per annum above the level which pertained shortly before announcement of LVT. Landlords could have a right of appeal, where they think they have implemented improvements that warrant a higher rent increase, but the costs of any such appeal tribunal hearings should be met by the landlords, who will therefore only resort to this if they believe they have a very strong case.

For new rentals coming onto the market, with no prior rent level base, the starting rent can be based on an average of rents for similar properties in the area, taking into account size, location, fit-out, and so on. Local estate agents would have the requisite data for such calculations.

Economists' main argument against rent caps is that they act to reduce supply by putting off landlords from renting their properties or maintaining their properties in a fit state to be rented. However, under my proposals for the way LVT would be charged, landlords would have a strong incentive to keep their properties rented out, otherwise their LVT rate would rise rapidly. Given that the standard Assured Shorthold Tenancy Act has implied that most tenancies are for six month periods, I would propose six months as being the appropriate time window to allow a property to remain empty before LVT increases are made. Thus an empty property would see LVT rate rise every six months, for example at 0.1% each time. Once a property was rented the LVT rate would not automatically drop to its starting point, but only gradually taper back down, to avoid landlords trying to game the system in some way.

But any inelasticity in the rentals market which, without rent caps, allowed landlords to pass on LVT costs to tenants, would tend to be based on demand outstripping supply, hence measures to increase supply should be implemented more efficiently than at present in any case. Building new homes is by definition too slow to remedy this potential problem by itself, but enabling the current stock of empty homes to be brought into supply could act much faster. Government statistics show that in England in 2019 there were 648,000 empty dwellings (the accompanying spreadsheet shows this figure broken down per Local Authority). At present Local Authorities are legally allowed to increase CT on empty dwellings after they have been empty for two years, and then apply increases of up to 100%. If one wanted to apply extra pressure on landlords this legislation could be kept in place, and the ratcheting up of LVT every six months applied alongside it. Contrast this with policy in Denmark where, if an owner moves and does not wish to sell, they must rent out the property; "if a property remains empty for more than *six weeks,* the owner has to report to the municipal authority, which then seeks to provide tenants which *the owner has to accept"* (Andersen, 2019, my italics).

The set of measures described here all function so as to shift the balance of power away from landlords and towards their tenants. Given the current housing shortages, and relatively high rents in major cities especially, this shift is entirely in keeping with my stated objective of achieving more social equity. If at some stage general opinion has it that the balance of power has shifted too far towards tenants then, given the range of measures being used, it would be relatively simple to scale back one or more measures in order to shift the power balance back slightly towards landlords.

5.9. Capital Gains Tax (CGT) and Principal Primary Residences (PPR)

All taxes are distortionary in practice, in the sense that they affect markets, change behaviour, and distort markets away from the economist's ideal of perfectly competitive markets. The Capital Gains Tax (CGT) system in the UK contains one major distortion in that

no CGT is paid upon sale of a person's Principal Primary Residence (PPR), ie their home. (The definition of Principal Primary Residence is quite complex since where a person owns more than one 'home' they can elect which one is designated as their PPR, and change their election back and forth at will, thus manipulating the effects of CGT so as to pay nil, or a minimum, of tax upon the sale of any one of the properties they own).

5.9.1. The Rationale for CGT on PPR

CGT is payable on the disposal or sale of all assets other than a person's PPR. The general rule applying to CGT calculations is to apply the tax to the gain in value of the asset during the period of ownership, calculated as the difference between the original purchase price paid by its current owner and the current market sale price they obtain upon disposal.

The rate at which CGT is charged on various asset disposals has always been complex, and remains so today, with differing rates for differing asset types, and differing rates depending upon a person's marginal income tax rate (the overall tax rate range is roughly between 10% - 28%). However, the key point for the purpose of this paper is the total absence of CGT on a person's disposal of their PPR.

This constitutes a benefit to the (mostly) older, wealthier population who have owned a home for several decades and seen its value rise multiple times through general land price asset increases. When such owners sell their properties they simply pay no tax at all, so they are (literally) sitting on a privileged class of tax free assets enjoying tax free growth indefinitely. Meanwhile the (mostly) younger generation who cannot afford to buy into this asset class have no means by which to join this privileged 'club' of PPR owners.

In keeping with my overall aim of reforming this area of taxation so as to be more equitable, and less distortionary as regards the residential property market, I would propose abolishing this special tax free status and introducing CGT on sale of PPRs with immediate effect, at the same time as introducing the other measures which make up the full set of reforms I am proposing.

I would suggest setting the rate of CGT relatively low, at around 5% - 10%, primarily on the basis that any new tax should always be introduced at a low enough rate to avoid a sudden, large, new market distortion, and also to reduce the potential for popular objections to it. Once the tax has been in force for a few years it could very likely be increased (or decreased) gradually without causing major objections.

5.9.2. A Retrospective Tax?

My proposal is likely to encounter the objection that the tax is retrospective, because it would capture gains made historically rather than only gains made from the date the tax is introduced (and a major feature of the UK tax system is that changes to taxes are not meant

to have retrospective effect). However, in response to such an objection, one could argue that in recent years several changes have been made with far more obvious retrospective effects (the most recent being the infamous “loan charge” on certain types of loans, and several years ago the major changes to “sideways loss relief”, both of which have had very serious effects on certain sectors of the population).

But unless CGT on PPRs is applied to all PPR disposals from the date it is introduced it will fail to capture a proportion of the historic gains which is precisely what it sets out to do. This effect is consistent with taxing away some of the wealth stored up in these assets, so as to be able to redistribute it to other areas within society which have been less fortunate, and happen to have grown up in a time when they could not afford to buy into this tax free wealth generating asset class.

The imposition of CGT on primary residences will act so as to curtail speculative market activity and so might dampen prices slightly in the long run; on the other hand sellers with houses currently on the market may wish to be ‘compensated’ for the introduction of a new tax and therefore push up their sale prices proportionately. But with a CGT rate of around 5% - 10%, this is not likely to be large enough to present a market problem, and the benefits of wealth redistribution and longer term stabilisation of house prices will outweigh any such issues.

5.10. Green Belt Areas

A nationwide consultation, involving a wide range of interest groups including housing and environmental sectors, is needed to reassess which areas of the Green Belt land are worthy of the name and should be preserved as such, and which can be freed up for development.

Where development use is permitted the relevant Local Authorities should be granted unencumbered ownership of the land, which would allow them to raise loan finance to cover development costs. Stipulations would be required re the (high) proportion of homes they would have to build for social housing, whilst avoiding constructing ghettos for the poor. Measures would also be needed to incentivise use of the best modern tools and knowledge of how to design and build good communities, not just houses, for instance by including adequate leisure facilities for all age groups.

6. Conclusion

The UK's property taxation system is outdated and badly structured. Its main method for raising Local Authority tax revenues, CT, is based upon built property values as at April 1991, since which time values have more than quadrupled whilst taxes have not kept pace, either with property value increases or with Local Authority needs. Most of the property value increases are due to increases in land values, not whatever happens to be built on the land.

A tax on land values per se has been described by economists over the centuries as the most progressive, fairest, and least distortionary tax possible. It does not reduce incentives to develop land, rather it assists in making sure all land gets used for its most productive and efficient purpose wherever it is located. Land is fixed in supply like no other asset, and also fixed in location. It cannot be hidden from the tax man's sight, nor can more of it be produced, it is, in effect, a naturally occurring monopoly for its owners. The owners of land are thus to be taxed on the economic basis of its imputed rental value, based upon its most valuable permitted use. This is a form of annual wealth tax.

LVT cannot simply be introduced as a replacement for existing CT. This is primarily because of the enormous land value increases experienced in certain parts of the country (notably some London Boroughs but other areas as well) since 1991, such that were a land value tax to *replace* CT, owners of properties on expensive land would be hit with annual tax bills between 5 – 50 times their current Council Taxes. My proposal is therefore to keep the current system of CT as it is, and introduce the new LVT as payable in addition to CT, but starting at a very low rate, i have suggested 0.05% per annum, so as to be affordable by the vast majority of the population.

LVT will not just enable governments to raise additional taxes from the relatively wealthy, but will also provide several major macroeconomic benefits: it removes the incentive to speculate in land and housing, thus acting so as to stabilise house prices in general, and reducing the historic volatility in this market, which has long been a major contributory factor in the economy's boom and bust cycles. Moreover higher rates of LVT can be charged to owners of multiple homes and holiday homes, non-resident owners, corporate owners, and owners of empty properties, as a means of incentivising and maximising the efficiency of single home ownership by the resident population.

For LVT to be successfully introduced a number of accompanying reforms will be needed to other property taxes, as well as to aspects of the wider housing market. These reforms include:

Abolishing Capital Gains Tax relief on sale of Principal Primary Residence (ie on sale of main homes), and introducing CGT at a relatively low rate, eg 10%. This removes an outdated distortion in the tax system, which currently disproportionately favours an older, wealthier,

generation who were fortunate enough to be able to buy their homes several decades ago before house price rises put the aspiration of owning a home beyond the majority of a younger generation whose wages have nowhere near kept up with asset price inflation.

Reducing Stamp Duty Land Tax (SDLT) to a flat 1% of purchase price, but *only on purchases of a sole main home*, ie keeping the current higher rates on purchases of second homes, holiday homes, and purchases made by corporate, trustee, and non-resident owners. As previous SDLT 'holidays' have shown, a reduction of this sort will have the immediate effect of boosting house market activity, and allow people to move house much more freely in accordance with their personal circumstances. The amount of tax revenue lost through this measure will be insignificant since most SDLT revenues come from the higher-rated transactions. Increased housing market activity brings amplified economic activity into many other parts of the economy as people seek to furnish their new homes, carry out alterations, and so on. Such a boost to the economy will be most welcome as the country emerges from its Covid 19 lockdown status.

The restrictive planning regulations need to be reformed so as to better reflect their objectives whilst freeing up suitable land for housing development. Incentives are needed to bring the stock of long term empty dwellings into a habitable state and rented out, to encourage a resurgence of small, local, building firms to carry out the required refurbishments, as well as to build new stock. Local Authorities should be given the means, incentives, and flexibility to increase and manage the supply of social housing and other low cost housing, to the degree appropriate to their local populations. Both the new LVT and existing CT can be used to provide incentives in this regard.

Major changes to the tax system such as proposed here need to be implemented gradually, allowing time for new computer and administrative processes to be organised, tested, and proved to be functioning properly. Experience needs to be gained in how best to handle the appeal systems that will be needed to cover such cases as landlord appeals against rent caps and freeholder appeals against their LVT valuation basis. One should also expect a number of unforeseen consequences and be prepared to respond suitably where these arise.

Once the new taxes and policies have bedded in for England they can be extended to residential property in the remainder of the UK (Wales, Scotland and Northern Ireland). LVT should then be extended to cover the other two land use categories: commercial and agricultural land. Further research will be needed to understand how best to combine LVT with the existing Business Rates tax system, which is the commercial parallel to residential CT. However, in both the commercial and agricultural sectors, LVT ideally lends itself for deployment in a Pigouvian manner; for instance a business running a factory which emits polluting gases into the atmosphere could be charged a very high rate of LVT, adding to the range of incentives for it to make changes to their production methods so as to reduce or

eliminate such pollution. In similar fashion, for land classified as agricultural, a wealthy landowner preserving a large grouse moor estate, with all its concomitant environmental damage, for the benefit of a privileged few to shoot birds for a few weeks of the year, could be charged LVT at a particularly high rate. On the other hand, another large estate owner (or farmer) bent on adopting best practice guidelines for maximising bio-diversity, or re-wilding their land, could be charged LVT at the minimum rate, to reflect the positive externalities they are actively pursuing.

In a world where the only two certain things are death and taxes, the one thing we can be sure that introduction of LVT will achieve is to tax the wealthy more effectively. However, for this to be translated into a more equitable society depends upon broader government policy, specifically upon how it makes use of the extra taxes so generated. It would be nice, if fanciful, to think that the present or a future government might actually implement some beneficial reforms of housing policy. Unfortunately, the latest extensions to the Permitted Development Regulations suggest the exact opposite to be the case (Clifford et al., 2020; Ministry of Housing Communities and Local Government & Robert Jenrick MP, 2020).

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Appendix A Data Sources

ONS the Office of National Statistics
VOA the Valuations Office Agency
MHCLG Ministry of Housing, Communities and Local Government
HMRC Her Majesty’s Revenue & Customs
HM Land Registry

Appendix B the Data Tables

Table A.

Master Spreadsheet for Local Authority Land Values, Areas, and Total LVT Amounts

This is designed to show the amounts of LVT that would be raised, per Local Authority area of England, based upon varying LVT rates. The data is based upon 2017 – 2018 government published data sets.

It shows, amongst other things, that if LVT were designed to *replace* CT then for England as a whole an LVT rate of around 0.9% would be required to achieve this, assuming that a uniform rate of LVT was applied across the country, and required to raise in total the same amount of tax as existing CT.

It also shows that, unsurprisingly, there would be huge winners and losers amongst the 326 Local Authorities of England if LVT simply replaced CT, with those in high land value areas such as London raising far more tax than through CT, whilst many rural location Authorities would suffer huge reductions in the amount of tax revenue raised. For instance in 2017-18 the City of Liverpool billed £181.3m in CT, whereas an LVT rate of 0.9% would have raised only £24.4m; contrast this with the London Borough of Westminster where CT billed amounted to £91.7m whereas LVT at 0.9% would have raised £551.1m. These disparities are simply the consequence of the relative land values per location.

Microsoft Office
Excel 97-2003 Worksl

Table B.

Council Tax Receipts per Local Authority England 2017 compared to LVT Receipts

This spreadsheet shows the amounts of CT billed and collected (not the same) per Local Authority in England for 2017, and compares these figures to the amount of tax that would be raised under various rates of LVT. It puts into more stark relief than the Master Spreadsheet the shift in fortunes that would occur amongst the various Local Authorities if CT were to be simply replaced by LVT.

Microsoft Office
Excel 97-2003 Worksl

Table C.

Ministry of Housing Communities and Local Government – Land Use in England

This shows, per Local Authority, the percentage breakdown of land use of all types, and is the complete MHCLG table, from which I have abstracted the percentage of land classified as either straight Residential, or Residential Garden, from Sheet P400, which is then presented on its own in Table D for ease of inspection.

Microsoft Office
Excel 97-2003 Worksl

Table D.

Percentage of Land Residential per Local Authority in England (Residential + Residential Garden)

A summary of the relevant data from Sheet P400 in Table C.

Microsoft Office
Excel 97-2003 Worksl

Table E.

Band D Council Taxes 2018-2019

Published by the Ministry of Housing Communities and Local Government this shows the Band D (the average Band) absolute amount of Council Tax charged in each Local Authority, as well as further details of how the charge is made up. The figures are categorised by type of Authority area: London, other Metropolitan Areas, Shire Districts, Counties.

Microsoft Office
Excel 97-2003 Worksl

Table F.

UK Average House Price Index data

Published by HM Land Registry, HPI (house price index) data tables, this shows average house prices from 1968 up to March 2020. Between 1968 and 1995 the data was only recorded on an aggregated basis for each major area of the country, from 1995 onwards it is further broken down by Local Authority.

Microsoft Office
Excel Macro-Enabled

Table G.

England and London Average House Price Index data 1980 - 2020

Extracted from Table F and with UK CPI as a benchmark

Microsoft Office
Excel 97-2003 Worksl

Table H.

Council Tax Stock of Properties 2018

Published by the government Valuations Office Agency this shows, per Local Authority and aggregated by region, the number of properties within each CT charging Band, A – H.

Microsoft Office
Excel 97-2003 Worksl

Table J.

Vacant Dwelling Stock England by Local Authority 2004 to 2019

Published by the Ministry of Housing Communities and Local Government this shows the total number of empty dwellings per Authority, broken down into various categories, including long-term vacant (more than six months), and Local Authority-owned vacant properties.

Microsoft Office
Excel 97-2003 Worksl

Table K.

London Empty Dwellings and Number of Households on Local Authority Waiting Lists 2018

Published by the online news source www.mylondon.news with data taken from the MHCLG statistics, this shows the numbers of empty dwellings per London Borough in 2018, alongside the number of households registered as waiting to be housed by each Borough.

Microsoft Office
Excel 97-2003 Worksl