HOUSING AND LAND VALUE TAXATION

The housing market isn't working and is grossly unfair. The only people who can afford to buy a house are those who already have one – or can turn to the 'bank of mum and dad'!

As Lloyd George said: "You cannot build houses without land". It is actually the **land** market that isn't working – and a land-value tax (LVT) on housing land is the answer. In LG's day, most people were tenants; today most are owner-occupiers. Therein lies the political problem. So introducing LVT on residential land is a very different political challenge to the one he faced.

We had domestic rating until the Poll Tax of 1989 – and now we have Council Tax, which is a kind of local property tax. Until 2007, Lib Dems opposed any domestic property tax but now we have a formal policy commitment to have LVT on ***all*** land. This leaflet sets out why that is and how we'd do it.

The price of a house varies nationally. So LVT needs to be primarily a national tax (see our leaflet ‘LVT: Local or National?’).

House prices change with time. Different factors affect price/value in different locations: from a bus stop moving to a new motorway passing nearby. **Regular revaluations** need to be done if any annual property tax is to remain fair.

The biggest problem with the old rating system – and with Council Tax now – is the failure of Government to ensure regular revaluations, coupled with the lack of a national element to the tax, which would ensure fairness as between local authorities.[1]

As time passes since the last valuation, more people are paying too much (or too little). The longer one delays a revaluation, the more protests there will be by ‘losers’ when it is eventually done.

It is no good trying to restrict domestic property tax to new homes. Apart from the artificiality of assessing what a new dwelling **would have** been worth in 1992 (which is what happens now when deciding which CT Band to assign it to), it is very unfair on the owners of new homes. The uplift in value which results from all new infrastructure that has been built since 1992 is all piled onto the developers and eventually occupiers of a few new homes, while everyone else gets a ‘free lunch’.

For example, when a bypass was built near Newbury, residents found their homes gained 20% in value overnight. Local congestion reduced and access to the rest of the country improved. **But only the Council Tax on *newly built* properties was increased**. It can work the other way, just as unfairly, if something is built near homes which reduces their value.

A more fundamental unfairness exists with a property tax that does not distinguish between what the owner and occupier ***do*** to

[1] Both problems were avoided with non-domestic rating, hence ‘Uniform’ Business Rates (UBR).

the house – which they've earned - and what happens to the site and its surroundings – out of pure luck. That is where LVT comes in. There would be **no tax on the building**: only the annual rental value of the site would be taxed.

It is important to emphasise **rental** value, because rents vary over time much less than capital / market prices of dwellings. People are more familiar with house **prices** than rents. However there are plenty of domestic rental transactions: easily enough for competent valuers to both separate the site value from the building value and to assess rental value.

Other countries, with more modern property tax systems than ours, regularly assess site values separate from buildings (even if they don't have LVT) and produce 'value maps' to make the tax base transparent. These maps can be accessed online.

Moving **business** rates to a **site-value** basis (Lib Dem policy for 20 years, now called Commercial Landowners Levy) will help the housing market significantly – but not enough. Underused commercial land currently paying little or no rates will cost owners more to hold, thus become more likely to be built out in whatever use is most appropriate – and in most of the country it is homes that are most needed.

The whole national economy would benefit from a gradual but determined policy shift away from taxing earnings to taxing the **'locked away' unearned wealth in our housing stock**. The Co-op Party's 2009 Manifesto, supporting LVT, expressed it well:-

"A key policy concern for the future has to be to keep growth in house prices consistent with other parts of the economy…. the shortage of homes in the UK has been artificially created by a poorly functioning property market."

Between 1995 and 2006, total UK domestic mortgage debt rose from 54% to 84% of GDP; value of housing stock rose from 142% to 268% of GDP. Meanwhile the average household income needed by first-timers to buy increased by 200%. This represents a massive transfer of wealth towards those with existing housing equity, that is towards the wealthier and older (although the 'bank of Mum and Dad' often shields the children of the wealthier from the worst effects of the housing market).

ALTER suggests the following policy programme, which would see an **increase** in households owning a share of their home, an **increase** in house-building and a **stabilisation** in house prices.

1. Tax-free portion of land-value, geared to *local* Housing Benefit levels[2], associated with all principal dwellings;
2. Domestic property tax levied on owners, not occupiers (requiring completion of the Land Register) – including social housing (but providers could transfer part-share to tenants, so they can claim HA);
3. National land valuation within five years, accompanied by gradual shift from 'gross' (building+land) Council Tax to site-only basis 'modernised domestic property tax', perhaps starting with Band H properties;
4. Re-introduction of something like former 'Schedule A' (notional rental 'income' of owner-occupation, levied through income tax) – but based on annual land-value;
5. Owner-occupying pensioners could defer payment of LVT until sale e.g. when moving into care or on death.

Liberal Democrat Action for Land Taxation and Economic Reform

Author: Dr Tony Vickers

Contact us at info@libdemsalter.org.uk

One of a series of LVT information sheets

Printed and published by P. Elderton, 86 Rothes Road Dorking, Surrey RH4 1LB

[2] This would need to be initially set high enough to ensure most pay less than under Council Tax.