High Time for Lo-Tax

by Tony Vickers[1]

“Fairer tax in tough times” is the strap-line for this year’s Autumn Conference, yet there is no tax policy motion on the agenda. This shows that tax remains central to Party strategy. It has to be a key component of a distinct Liberal Democrat identity that must be communicated to voters through to 2015.

Our last Tax Commission finished work well before the Credit Crunch completely altered the economic landscape in 2008. However the general thrust of policy approved overwhelmingly in 2006 & 2007 – a shift of the burden off jobs and productive enterprise onto unearned wealth accumulation – has proved perhaps the most significant positive contribution to the Coalition’s efforts to restore growth to the economy. We are unlikely to have emerged out of economic austerity before 2015.

“Hard times make for hard decisions, and I believe the time has come to explore the introduction of a land tax”. So said Tom Dixon, a leading commentator on property tax among his fellow professionals, in June last year. His enthusiasm stems from “the financial follies of the past decade”, i.e. irresponsible lending against speculatively inflated property prices. He went on to say that, technically, there is no reason why LVT cannot be implemented now and ended his article with the question: “What are we waiting for?”!.

The answer is: a Party with courage and a realistic plan for reform. We need more than Mansion Tax to bring Britain out of recession, although that is a baby step in the right direction.

The new Tax Policy Working Group which holds its initial ‘brainstorming’ consultation at Brighton, without the enormous benefit of having Vince Cable & Chris Huhne – expert economists, not tax practitioners – as members, needs to build on Vince’s economic vision in ***Fairer Simpler Greener***. To inspire voters, we need to be radical again about tax: to focus on the wood, not the trees.

Revenue raising is only one of the functions of a tax system. Some taxes exist to penalise ‘bad’ behaviour (like smoking or gambling): any temptation to use them to regulate the wider economy, let alone serious feather plucking of the golden goose (the productive economy) must be resisted. Even “fairness” must, for now, come second to achieving a sustainably growth-led economy.

Most taxes are “welfare negative”, meaning they are bad for the economy, because they add to the cost of production, employment, sale price or living. If it were possible to design a tax system that did not penalise economic activity, surely any sensible Government would do so.

One form of taxation passes the test: collecting the “unearned increment” that arises from mere possession of title to land (or airport landing slots or other natural “commons”) cannot add to the costs of any economic *activity*. It is a “welfare neutral” tax. The generic term for such a tax is Land Value Taxation

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(LVT) but ALTER (the Party's only group focusing on economic matters) would like to re-brand the wider *strategy* for using LVT as "Lo-Tax".

The Party reaffirmed support for LVT in 2006 but "for the longer term" and without a Plan to achieve it. Lo-Tax is the outline of such a plan and its main elements have wide support among those who favour LVT:-

- Basing LVT on *rental* value, not capital value (as happens with Business Rates already), because property/land rents are much more stable than prices;
- Using LVT not just for *local* government but *mainly* for *national* taxation;
- Establishing from the outset that *all* land is liable for tax, so that a coherent and complete register of ownership and value can be undertaken;
- Exemption for low value land and small sites, also a tax-free element for owner-occupiers, linked to local land values, to encourage spread of ownership;
- Make the 'tax shift' (off enterprise) revenue neutral *by law*, thereby requiring offsetting reductions in others taxes for every increase in LVT;
- Use of 'precepting' (as happens now with multi-tier local government) to enable the simplicity of a single *national* tax administration (local billing authorities would be abolished) to be combined with full autonomy for every elected council (and devolved governments) in terms of *rate* setting;
- Treating owner-occupiers as having "notional rent" paid to themselves (what they *would* earn *if* their home/business-site was rented), so that LVT can be subsumed within the income and corporation tax systems, as happens in Sweden now;
- Allowing LVT liability of owner-occupier pensioners and other claimants to be 'rolled up' and only paid (with interest) upon death, sale or re-mortgage of property.

The headline-grabbing element of Lo-Tax is that it means both *lower* taxation for most people and *location*-based taxes: the value of the location, not the buildings themselves, being the object of taxation.

The losers would be speculators and those who have grown asset-rich primarily through luck and not effort. Society as a whole, in particular those of working age now and their children, would gain through the more efficient use of land and the reduction in tax on economic activity. Jobs would be created, both in construction (on under-used high-value sites) and by the reduced taxes on earnings and profits making all UK production less costly and more competitive. Instead of being locked up in land values, surplus capital would be invested in things that add value to the *real* economy.

It is the most vulnerable in society and those not yet in the workforce who suffer most when an economy goes into decline. There is nothing fair about failure to restore growth, or making the diminishing workforce pay more tax, or condemning generations to come to endless 'boom-bust' cycles.