reduced) are absorbed **unearned** (or undeserved) by the owners of these **other** sites. They are only taxed through CGT or – after a revaluation – by rates. Such value gains are bankable: they can be securitised as loans and converted to spending power – so long as the property bubble does not deflate.

All property transaction taxes fail to act as fiscal instruments, in the way LVT does. They also act as 'grit in the system': slowing and/or adding costs to transactions of those property market players who are responding to signals in the wider economy – the need for more houses etc.

The same goes for Stamp Duty Land Tax (SDLT) and its predecessor Stamp Duty – the main difference being that SDLT relates to the location of the 'land' being taxed and not where the 'stamp' was made!

ALTER would press for phasing out of all such transaction taxes on the introduction of LVT.

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

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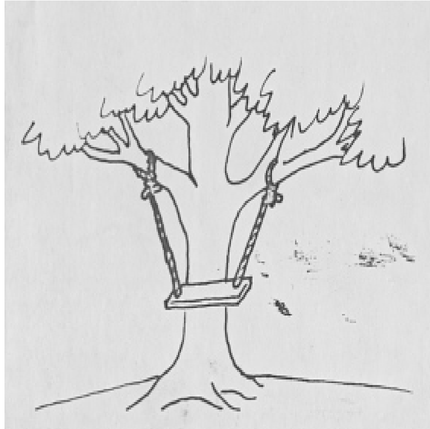
ACTION FOR LAND TAXATION & ECONOMIC REFORM

A SHORT HISTORY OF FLAWED UK LAND TAXES



There have been several attempts to capture "the unearned increment of land values" through taxes of various kinds. Some of them are called 'Land Tax'. Whilst all collect some 'rent' for the public purse from privatised land values, none are nearly as effective as LVT and most have perverse side-effects.

This leaflet outlines these flawed land taxes, some of which are still with us.

Rates (including the Uniform Business Rate) tax land and buildings together. This penalises investment in buildings. Under-used sites and less well maintained buildings on valuable sites are taxed lighter than equivalent fully utilised sites. When revaluations are infrequent, the resulting encouragement to speculate on under-utilised sites (e.g. hold them out of use) is increased.

<u>Town & Country Planning Act 1947</u> The Labour authors of this Act intended that 100% of 'betterment' value released by the award of planning permission would be recovered by a Development Charge. "Existing use value" would not be taxed. However owners could develop buildings within their 'existing use' class without charge and by simply holding onto land, in the hope that its value would rise without change of use, owners could retain all that rise without being taxed upon sale. The measure killed the very thing it was supposed to tax: development of land into 'higher value' use. Owners speculated, correctly, that a Conservative government would repeal it. They did – in 1952.

Perhaps the most significant aspect of TCPA 1947 was the nationalisation of development rights, allowing local planning authorities to capture 'planning gain'. (See '*Section 106*' below)

<u>Land Commission Act 1967</u>. Labour's next government created a Land Commission, empowered to acquire and manage land, for lease or sale at full market value or on concessionary terms. The New Towns Act 1946 had already given similar powers to the New Towns Commission. Private landowners would also pay a Betterment Levy of 40% on sale or award of planning permission. There was a similar distortion of the property market: a stampede to complete sales before the Act came in, then owners held land off the market in expectation of change of government. Sure enough, the Land Commission was abolished in 1970, having cost more than the £46m it raised.

<u>Community Land Act 1975</u> & **<u>Development Land Tax Act 1976</u>**. Labour's third post-WWII government tried again to nationalise land values through a transaction tax, with local authorities empowered to take on the previous Land Commission

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role. The Conservative government had floated ideas for modest taxation of 'development gains'. The Development Land Tax (DLT) was set at 80%, collected through Capital Gains Tax (CGT) if sale was involved, but also at time of planning permission through 'deemed development'. The Acts were hugely complicated and repealed by the Conservatives in 1979 and 1985 respectively, although the DLT was retained at 60% for a few years.

<u>Section 106</u> 'Developer Contributions' capture 'planning gain'. The power of mandatory development control under TCPA 1947 has most effectively been exercised to secure financial (or 'in kind') contributions to infrastructure costs incurred by public bodies in relation to development of land. However all such contributions, albeit paid out of 'land value uplift', depend on planning permission being awarded and (normally) implemented..

Subsequent Planning Acts and court judgements have clarified that 'planning gain' payments must be "necessary, reasonable, relevant and enforceable" for the development and the developer in question. Even if/when replaced by some kind of 'tariff' system (to overcome accusations that they allow planning authorities to bribe developers or are open to corruption of officials), all these kinds of event-related payments are subject to the fundamental flaw that if the event (planning permission or development) fails to happen, then no payment is made. This gives owners an opportunity to sit on land, which has been scheduled for development, while incurring no recurrent costs in so doing.

The same applies to the Community Infrastructure Levy (CIL), which the last Labour government enacted in its dying days. The Coalition went ahead with CIL implementation.

Moreover none of the Acts or taxes above deal with the 'spillover effect': all development, with or without need of planning permission, results in changes to the value of sites **other than the site being developed**. These value uplifts (or 'hits' if value is