Introducing Location Value Covenants

Introducing a Land Value Tax might not be the only way to collect the economic rent of land. Here, **Dr Adrian Wrigley**, suggests an alternative: Location Value Covenants

The location Value Covenant (LVC) is a startling and simple idea for tax and welfare reform. The concept breaks away from using state coercion to force simultaneous reform across a nation. In place of tax compulsion is consent, contract and the market mechanism. In these respects, it is the antithesis of conventional tax or welfare reform. LVCs minimise economic turbulence and financial instability by avoiding windfall gains or losses. An LVC places a legal obligation on the owner of a particular plot of land to pay a specified sum of money regularly to a specific public body. Nothing more, nothing less. It is the simplest and most direct means of transferring the economic rent of land for public purposes. In English legal systems, the LVC would be a covenant with the following key features: It runs with the land in perpetuity, it requires payments to a named public body by the owner in due course, it specifies an initial payment amount and date, it specifies subsequent dates and amounts and the payments are adjusted in line with a specified formula or index.

The obligation to make each payment is on the registered owner of the land at the time the payment is due. The payment would normally be to a city, regional or national government responsible for supplying services to the land concerned or to a body responsible for collecting and distributing the payments.

Ideally, the index represents local site location annual values. By fully specifying the payments, LVCs are relatively immune from political interference, giving a stable, predictable revenue stream to government while reducing payment risk to the owner. LVCs would be published, helping ensure transparency. One way of looking at an LVC is as a kind of Land Value Tax (LVT) specific to the particular plot. Another way is as an interest-only, index-linked perpetual mortgage tied to the site.

Failure by the owner to pay the specified sum would be a breach of the LVC. The beneficiary would be able to use existing legal procedures for debt recovery, up to and including a forced sale of the land and fixed property. Failure to pay would not be subject to criminal sanctions.

Since land with an LVC is financially burdened, it will fetch a lower market price than land otherwise. Only the legal owner of the land is entitled to create an LVC—and it must be voluntary. The immediate reduction in the asset price must therefore be matched by a corresponding benefit or inducement to the owner. This benefit is governed by a contract with fully negotiable terms.

The LVC opens new opportunities for reforms based on contract law and consent. Attempts to base reforms on changes to the tax system are by their nature imposed without individual consent and often require compromises and transitional measures. This created the political logjam that has led to the gradual economic failure of tax systems worldwide. The perceived losers in any tax reform work tirelessly to compromise or block any changes. Politicians are funded by selfish interests looking to exploit the tax system.

By using contract law for tax reform, it is possible to overcome the political logjam. Rather than trying to force universal changes in tax obligations, people can be offered the opportunity to contract-out of existing taxes using the "currency" of LVCs.. A taxpayer simply does a deal with the taxing authority to leave existing taxes behind. If the person and the government both benefit by the deal, it can go ahead. It is a market-based approach to tax reform and overtly accepts that the current systems are misguided and wasteful for all concerned. Our crumbling tax and welfare systems must now be viewed as obsolescent.

The flexibility and scope of the LVC with suitable contracts is illustrated by the wide variety of applications. A simple deal to create an LVC involves swapping out an existing property tax. For example, a home owner in Cambridge might currently be paying an annual property tax of £1500 (Council Tax) to the local council. The owner offers to create an LVC payable to the council in exchange for the council ceasing to collect Council Tax on the property. To proceed, the council and the home owner have to enter a contract beneficial to both sides. This will usually be possible, even though the benefits may be modest. In general, the initial payment under the LVC will be comparable to the tax which it replaces, and linked to a suitable index. The deal is effective once the contract is signed by both parties and the owner signs the covenant.

The payments are not linked to the number of occupiers or their circumstances, reducing paperwork and scope for fraud. Both sides benefit from stable payments without the risk of political manipulation of bills. The owner has the full incentive to make best use of the property, since there is no discount when empty nor penalty for improvements.

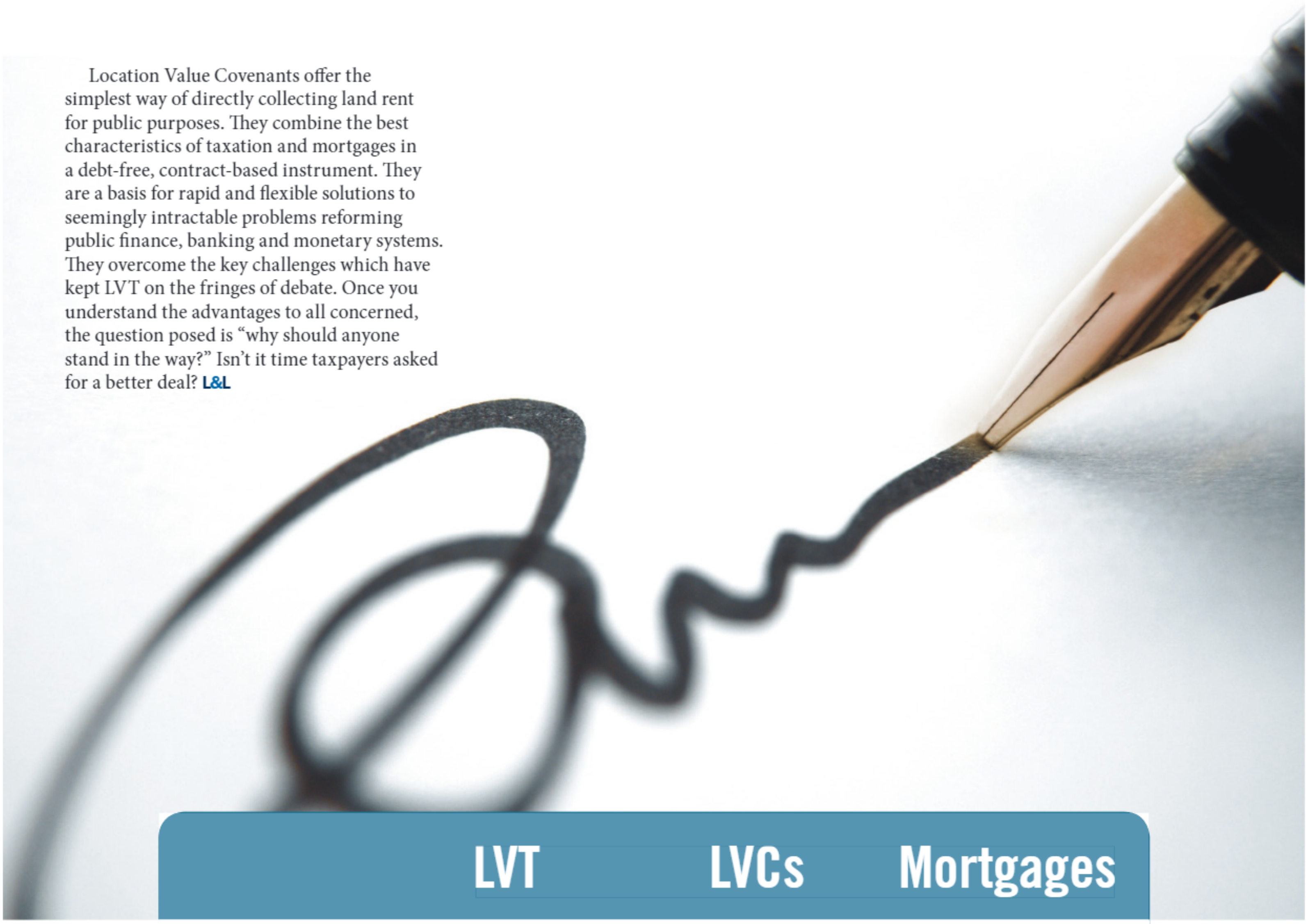
Most countries have multiple taxes and welfare connected with property. In the UK, there is Council Tax, Uniform Business Rates, TV Licence, Stamp Duty, Council Tax Benefit, Housing Benefit, Income Tax on lettings and Capital Gains Tax. Each of these has its own rules and burdens. By creating a bundle of benefits in exchange for an LVC, an immediate and dramatic simplification can be achieved for a property's owner and occupiers. A basic package should aim to settle all these property linked taxes and also eliminate future welfare payments for the property. The contract is extended to discharge liability to each payment and the LVC's initial payment amount is adjusted to a level acceptable to all parties. This tax consolidation results in just one regular payment, independent of changes in circumstances—the marginal rate of tax (with occupancy or home improvements, for example) is zero.

Beyond substituting property taxes, LVCs can facilitate restructuring of the banking and monetary system, housing finance, general taxation and welfare. Emergency reforms are essential to prevent catastrophic breakdown of these systems. Top priority is the voluntary settlement of mortgage debt in exchange for LVCs, paid for by the issue of special debt-free, interest-free Treasury Notes, thus reclaiming the sovereign right to issue money from the banks.

LVCs overcome key disadvantages of LVT for public rent collection. They do not need full land registration, site valuation, nor even necessarily primary legislation. They minimise economic turbulence and can be easily trialled and adapted. And they remove the revenue collection from political interference and manipulation. By avoiding compulsion, they eliminate the winners and losers of lump-sum equity redistributions like LVT.

While the public may find particular LVC deals simple and appealing, campaigners for monetary reform and for LVT sometimes find the underlying principles alien to their thinking. Of particular concern is that it does not seize land rent from the biggest landowners—a separate law could do this.

Location Value Covenants offer the simplest way of directly collecting land rent for public purposes. They combine the best characteristics of taxation and mortgages in a debt-free, contract-based instrument. They are a basis for rapid and flexible solutions to seemingly intractable problems reforming public finance, banking and monetary systems. They overcome the key challenges which have kept LVT on the fringes of debate. Once you understand the advantages to all concerned, the question posed is "why should anyone stand in the way?" Isn't it time taxpayers asked for a better deal? **L&L**



	LVT	LVCs	Mortgages
Beneficiary	government	government	• bankers • shareholders • borrowers
Lifetime	perpetuity	perpetuity	until sale or repayment
Creation by	legal imposition	consent	consent
Uniformity	same everywhere	sites differ	sites differ
What adjusts payments	• site valuations • politicians	land value index	bankers
Legal basis	• new tax laws • property taxation	• existing contract law • covenants on land	• existing contract law • secured debt