

THE HOUSING CRISIS AND LVT IMPLEMENTATION

The two articles *LVT and the Housing Crisis of a Generation* and *Efficient Effective LVT Implementation* in the Spring and Summer issues, respectively, outline a practical approach to the work needed for restoring to the community as a whole the economic rent of land. Practical policies must accord with true principle if they are to be effective and further development of the policies outlined in these articles is proposed.

To be successful, the ultimate objective must be the recovery of all the economic rent of land, with the whole proceeds being used to reduce every form of taxation of earnings. There will have to be some special arrangements, such as for the 'asset rich income poor widow' but in every case the intention must be to defer the collection of tax due rather than to forgo it. Interim stages may also be necessary but these must be consistent with the ultimate objective. The process of implementing LVT must therefore avoid the temptation to allow dispensations for present land owners. For instance there is no general justification for allowing individuals to deduct LVT from taxation on their earnings. Earnings are taxed in order to replace the natural revenue lost to the government through the private appropriation of the economic rent of land. The aim must be to reverse this process to restore a natural level of earnings free of taxation. After replacing existing taxation of land, all LVT revenue should be used to reduce taxation on earnings in whatever way benefits the community as a whole.

There is a fundamental difficulty. It is usually assumed that the occupier is enjoying the unearned benefit of the location value and should therefore pay that location value as LVT, either directly or as part of the rent, in which case the landlord can pay the LVT. However, this overlooks the way in which land owners benefit on sale of property. Whenever real property is sold at the market price, the price of the land element is the capitalised value of the estimated future rent in perpetuity. The vendor receives the future rent of the land element immediately. The new owner pays it in advance, or more probably, agrees to pay it later as the repayment of a mortgage loan together with loan interest. The process is repeated with every subsequent sale, usually at a higher price because of the increased rent then obtainable. The rent of land is an unearned claim on the future production of real wealth, goods and services. Every sale adds to this claim by the land owners.

Although this process lies at the root of wealth inequality including generational inequality, it is still perceived as desirable by those who benefit. The introduction of LVT will bring a dramatic change. Instead of the expectation that future increases in property prices will provide windfall gains, there will be the realisation that the new liability to LVT will eventually reduce the value of the property to the value of the house only. All payments made or still to be made for the land will be lost, together with expected windfall profits. The potential overall benefit from the reduction of tax on earnings may not be recognised. It will be very difficult to persuade those concerned, who are also predominately those who influence and control public policy, that this is a desirable objective.

I believe that this difficulty needs to be faced at the very outset.

It is no good trying to avoid the issue by offering preferential treatment because this will prevent the redistribution of land value to the community as a whole and cause the project to fail. Applying the principles to the articles prompts some suggestions:

1) A National or Local Tax?

LVT should be a single national tax at a uniform poundage, collected locally with partial redistribution to local authorities to meet local needs, as for Council Tax.

2) Allocation of Revenue

LVT should initially be revenue neutral in respect of existing property taxes. It should not be offset by individuals against taxation based on earnings. Additional revenue from subsequent increases in poundage should be used to reduce taxation on earnings of the community in general and not be limited only to those paying additional LVT. Probably it will be better to assess LVT on residential land first and to include commercial and agricultural land later.

3) Poundage Levied

The poundage levied should initially be revenue neutral as in (2) above. Subsequent increases should be staged so that the general economic benefit from the reduction of taxation on earnings offsets the increased LVT payable by the most vulnerable.

4) LVT Revenue on Residential Property

Because of the way in which Council Tax on higher value homes is limited to three times that on the lowest value homes, it is inevitable that to raise the same or more revenue from LVT, the LVT on higher value homes will be higher than the Council tax. There is no justification for deferring the excess. Furthermore If LVT in excess of Council Tax were to be deferred as suggested, the Initial total revenue would be less than the current Council Tax revenue and would only increase gradually as homes are sold.

5) Interim Preparations

The introduction of Land Value Taxation in accordance with the stated principles will be a long and difficult process not because of technical difficulties but because of the change in hearts and minds that will be needed. It is also likely to need many small incremental changes in order to protect the home owners who have most to lose. A useful interim stage would be an easy and obviously reasonable change in the existing system. This is the proposed correction of Council Tax as shown in the Spring Issue of *Land&Liberty Introducing Land Value Taxation on Residential Land*. The arithmetical formula now used to calculate council tax, which limits the highest rate to three times the lowest, could be easily and quickly corrected. By making small incremental changes this ratio could be changed from 3:1 to 10:1 to correspond with the Council Tax bands. It would be fair and would prepare for the still larger increases for higher value properties when the assessment is based on land value only.

Whatever is finally decided, it has to be accepted that explaining the need for LVT is only half the battle. Devising an equitable way of introducing it will be just as difficult. ■