Committee:	Date:
Finance Committee	19 July 2016
Subject: Land Value Tax for London	**Public**
Report of: The Chamberlain	**For Information**
Report author: Caroline Al-Beyerty, Chamberlain's Department	

Summary

The Greater London Authority recently published a high level discussion paper exploring the potential benefits of Land Value Tax (LVT) replacing business rates and council tax in London. The paper proposes that a feasibility study be undertaken and LVT trialled in London if there is a positive conclusion.

It is unlikely that LVT will be implemented in London as it is politically difficult and will add to the uncertainty arising from Brexit.

LVT offers theoretical benefits for London as it incentivises releasing land for development. However there are significant practical challenges in implementing LVT, particularly around valuation. LVT will shift tax from occupiers to landowners and the City will have to take on a significant tax burden in relation to its property portfolio. The introduction of LVT in London will have a disruptive impact on the London market and erode investor confidence, making it uncertain whether the intended benefits of increasing land available for development can be achieved.

Recommendations

That members note the report**.**

Main Report

Background

1. In February 2016, the Greater London Authority published a high level discussion paper called 'Tax trial' on the pros and cons of having a Land Value Tax (LVT) in London. Within the report, the GLA explore the possibility of a Land Value Tax ('LVT') in London replacing the three basic property taxes- council tax, business rates and stamp duty. The main aim is stated to be the reduction of land held in sub-optimal uses and to increase the amount of land for development, including for housing. The paper concludes that the next Mayor should fund an economic feasibility study and, subject to a positive conclusion, request the powers from the Government to trial a Land Value Tax in part of the city.

2. LVT has been considered at various times prior to the publication of the GLA report. Whilst there is strong support for LVT amongst academics, it has always been recognised that there are formidable political difficulties in

implementation. Notably, it would place an additional tax burden on small, individual landowners and reduce the value of property relative to current arrangements. As a result, it does not appear that LVT has much support either within the GLA or in government. The current uncertainty arising from Brexit makes it even more unlikely that LVT will be implemented in London, as it will add even more uncertainty to an already fragile situation.

Land Value Tax

3. LVT is an annual levy on the ownership of land. The main features are:

- Levied as a fixed tax rate on the value of land when put to its optimal use.
- Valuations are based on the land alone, excluding any property on the land.
- LVT is paid by the owner of the land, rather than the occupier.
- Regular site revaluations required to capture any changes in market value.

4. At this stage there are no specific proposals on how LVT will work in practice. Evidently, the impact of LVT on the City will depend heavily on the specific details on implementation. Key considerations would be whether the tax rate is set locally or for the whole of London, whether tax receipts are wholly kept by the City or goes to central government and any exemptions/reliefs. The paper also predates the Chancellors announcement that London becomes a pilot for 100% business rate retention.

5. In the absence of such details, any evaluation of the impact of introducing LVT on the City is largely theoretical and speculative. However this report explores some of the likely challenges and identifies the potential implications for the City. Our analysis assumes that local authorities or the London area would be able to keep any local taxes collected by 2020 and have some freedom to set their own tax rates.

Practical Challenges

6. The GLA's paper anticipates that the administration and collection of LVT will fall upon local authorities. Any initial transition to LVT poses a number of significant practical challenges for the City:

- The UK lacks a definitive register of land ownership and there will need to be significant work up front to gather the data and establish a definitive register of land ownership. This is expected to be especially difficult in London with its complex network of property rights, for example is the owner the freeholder, the 999 year head-lessee, or the under-lessee with a 99 year lease.

- The City would need to carry out a survey of land use and identify the optimal use of each site within our boundary. The evidence base for such a judgment is not clear, for example planning permissions are granted or refused and strategies give broad indications but are not site specific.

- Valuations will need to be carried out on the land comprising each site, excluding any property that may be on the land. This will be challenging in practice due to a lack of market transactions for land alone and will lead to discredited assumptions being adopted, making the basis even more remote from reality than Uniform Business Rate ('UBR').

- Valuations will need to be updated annually for the tax to provide the intended benefits. This is onerous and expensive compared to the UBR basis currently used for business rates, which is updated every five years.

7. Whilst the initial transition may be challenging, the GLA anticipate that the actual administration of the tax will be straightforward once the system is established. There may be less exemptions/reliefs to administer, the tax will be difficult to avoid as it is based on static land, and collection rates are expected to be better than for business rates and council tax. However there may be issues with collecting the LVT from overseas or remote owners as opposed to collecting business rates from the occupier who would normally be on the premises.

Financial Impact on the City

8. The replacement of council tax, business rates and stamp duty with LVT will create winners and losers amongst local authorities in terms of tax receipts – the outcome for the City will largely depend on the site valuations and the tax rate set. With its own significant investments in London property, the City Corporation will also be impacted by LVT in its capacity as a substantial landowner. Potential impacts on the City Corporation include:

Tax Receipts

- Abolishing business rates will also mean that the City loses Business Rate premium, an important source of additional revenue for the City. This may be mitigated to the extent that the City can set its own local LVT tax rate.

- Tax receipts from LVT will rise or fall in accordance with land prices. Over the long term the City is likely to benefit from rising land prices, however the City will also be vulnerable to short term shocks in the property market.

- LVT would result in double taxation if it was levied on top of the Community Infrastructure Levy (CIL) for development land. An implementation of LVT in London may put current CIL arrangements at risk.

City's own liability for LVT

- The City will take on a substantial tax burden in relation to its investment properties, as LVT will be levied on the City as the freeholder of the land, rather than on the occupier. This may be mitigated to the extent that LVT can be passed onto tenants and leaseholders. If it can be passed on, there will be an inefficient chain passing on the tax and possibly the costs at each point.

- The land relating to the City's vacant properties will be subject to LVT, and this will create a financial incentive either for these sites to be put to economic use or sold. For example the City's Open Spaces generates limited income, but could be subject to a high LVT charge due to the size and location of these sites. This would be likely to impact on all City property held for non-commercial operational purposes.

LVT and Property Values

- It is expected that LVT will decrease the market value of properties relative to current arrangements. It is argued that prices will have to reduce to reflect the fact there will be an annual cost to holding the properties. Further, LVT will dampen speculation by removing incentives to withhold land soley for appreciation, with a subsequent impact on price. This will affect both the City's portfolio of operational and investment properties.

Wider Impact on London

9. A switch from current tax arrangements to LVT will represent a fundamental change in property taxation that will shift the burden of taxation from occupiers to owners. For businesses, their costs would reduce and this would drive up demand for accommodation. Theoretically, LVT should increase the supply of land available to meet this demand, however there are doubts whether this would actually happen in practice.

10. Where land is vacant and owners are able to develop, LVT would encourage land to be released for development, however there would be a minimum time lag of two to three years before new projects are delivered. In many cases, owners will be prevented from redevelopment due to the rights of an existing occupier. Further, taxing London in this way would make it less competitive, as the costs of land ownership and development would increase in London alone. There may also be instances of double taxation where both LVT and CIL are levied on the same development land. This would make London less attractive for developers and investors causing investment monies to flow to other cities or abroad. All of the above would impact negatively impact supply, and it is uncertain whether the intended outcome of increasing land for development would actually be achieved.

11. The likely outcome from implementing LVT in London would be a mismatch between occupier demand and available supply. The relative attractiveness of London for investment will be undermined and confidence from both foreign and domestic investors will be eroded. For these reasons, LVT is seen largely as a discredited theoreticians approach with limited understanding of how the property market operates in the real world.

Conclusion

12. LVT may offer some theoretical advantages for London over existing arrangements, however there are significant implementation challenges and it is unclear whether the touted benefits can be achieved in practice. The cost of the new tax will fall primarily on existing landowners and the City will have to take on an additional tax burden in relation to its property portfolio.

13. Should LVT be implemented, it represents a fundamental change to property taxation which will be highly disruptive to the existing London market. This could severely damage London and the City's competitive position and seriously undermine international investor confidence.

Contact:
Caroline Al-Beyerty
Financial Services Director

T: 020 7332 1113
E: caroline.al-beyerty@cityoflondon.gov.uk