Land Value Taxation

Standard Note: SN6558

Last updated: 17 November 2014

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The prospects for introducing a Land Value Tax (LVT) – an annual levy on the ownership of land – have been discussed from time to time over the last few years. Proponents have argued that, in addition to raising funds for the Exchequer, an LVT could also be used to stabilise house prices or to reform local government finance by replacing council tax. A further argument in favour of LVT is that taxing gains from increases in land values would be unlikely to distort incentives and should be economically efficient. First, imposing a charge on land values should not affect the availability of land since land is in fixed supply. Second, increases in land values usually come from external developments – such as the construction of infrastructure (roads, tunnels, rail networks, etc) – which require no effort or expenditure on the part of the land's owner. Arguably landowners would face a windfall loss as soon as the tax was announced, but the tax should not create any disincentives to buy, develop or use the land in question.

However, there are significant difficulties to implementing the tax in practice – principally the need to value land separately from buildings, when most market transactions are for plots of land and the property situated on it. There are also concerns that a tax of this nature would penalise home owners on low incomes, particularly if trends in house prices have meant the value of someone's home has grown significantly faster than their income.[1]

To date there have not been any serious attempt to introduce an LVT, although recently there has been a good deal of discussion of the case for an abridged form of this charge: a 'mansions tax', charged annually on the value of housing, though only assessed on the most expensive homes. In the 2010 General Election the Liberal Democrats proposed a levy on homes worth £2m or more, although this element of the Party's manifesto was not carried over into the Coalition Agreement. In February 2013 the Labour leader, Ed Miliband, announced that a Labour Government would introduce a mansions tax, and more recently the Shadow Chancellor, Ed Balls, confirmed that the tax would be banded, and that individuals liable to pay the tax who had relatively low incomes would have the option for deferring the tax, until their property changed hands. Mr Balls has suggested the tax would raise £1.2bn, and that homes worth £2 to £3m would pay £3,000 a year.[2]

[1] For a good summary of the case for and against a LVT, see, Stuart Adam, *Land and property taxation: Institute for Fiscal Studies presentation at Department for Communities and Local Government*, 8 March 2011.

[2] "A mansion tax will be fair, simple and pay to save the NHS", *Evening Standard*, 20 October 2014.

Content

1 The case for introducing a tax on land values

The case for taxing landowners on the gains they make from rising land values has been made, off and on, for over 150 years. Henry George, the political economist, is recognised as one of the first proponents of land taxes in the mid-19th century. Further to this, many commentators have quoted Winston Churchill, in a speech he made in favour of taxing land values at the start of the 20th century. Churchill's central argument was that the state should tax landowners on the benefits they accrue from external developments, because these have been provided by the labour, investment and tax payments of others:

> Roads are made, streets are made, services are improved, electric light turns night into day, water is brought from reservoirs a hundred miles off in the mountains - and all the while the landlord sits still. Every one of those improvements is effected by the labour and cost of other people and the taxpayers. To not one of those improvements does the land monopolist, as a land monopolist, contribute, and yet by every one of them the value of his land is enhanced. He renders no service to the community, he contributes nothing to the general welfare, he contributes nothing to the process from which his own enrichment is derived.[3]

In the Mirrlees Review of the UK tax system published in 2011, the authors argued that "the economic case for taxing land itself is very strong":

> Taxing land ownership is equivalent to taxing an economic rent—to do so does not discourage any desirable activity. Land is not a produced input; its supply is fixed and cannot be affected by the introduction of a tax. With the same amount of land available, people would not be willing to pay any more for it than before, so (the present value of) a land value tax (LVT) would be reflected one-for-one in a lower price of land: the classic example of *tax capitalization*.
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> Owners of land on the day such a tax is announced would suffer a windfall loss as the value of their asset was reduced. But this windfall loss is the only effect of the tax: the incentive to buy, develop, or use land would not change. Economic activity that was previously worthwhile remains worthwhile. Moreover, a tax on land value would also

[3] The Land Value Taxation Campaign publishes a copy of the whole speech on its site, which, apparently, Churchill gave outside the House in mid-1909.

> capture the benefits accruing to landowners from external developments rather than their own efforts.[4]

The authors acknowledge that there is a "wrinkle in the argument" that LVT would not distort incentives to develop land, given that "there is, in effect, some elasticity in the supply of land because of planning regulations." However, they go on to suggest this should not be seen as a reason to abandon the idea:

> Governments in the UK and most other countries specify the uses to which particular pieces of land can be put—for example, residential, business, or agricultural. So land that is designated for agricultural use, for example, cannot be used for house-building. In general, land with planning permission for residential use is much more valuable than adjacent land with an agricultural designation. In January 2009, the average value of a hectare of arable farming land in south-east England was £20,000, compared with £1.3 million for a hectare of industrial land and £2.5 million for a similar area of residential building land (Valuation Office Agency (2009), *Property Market Report January 2009*).
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> A tax on land value might, at the margin, reduce the incentive to apply for permission to change the designation. But the scale of gains available suggests this is unlikely to be a major issue. And, in any case, planning permission is a policy variable, not a market good: a government concerned that an LVT might discourage valuable development could compensate by relaxing planning regulations so that applications were more likely to succeed. This could be done directly or achieved by giving local authorities, which generally make planning decisions, some incentive to accept applications by, for example, allowing them to some portion of the additional receipts created by an extension of their tax base
>
> [By contrast some work in this area[5] has argued] that an LVT can create a bias towards excessively rapid development: more specifically, towards land uses that deliver returns early, since returns of equal present value that accrue more slowly are still capitalized into land prices immediately and therefore taxed every year even before they are realized. This bias could be avoided by taxing the 'best use' value of the land rather than its market value (though 'best use' value would be even harder to assess); but, in any case, it does not seem to us to be a sufficient reason to reject LVT. [6]

The *Financial Times* columnist, Martin Wolf, has made the case for LVT for some time. Writing in the paper in February 2004, Mr Wolf set out five benefits of a tax on site values:

- It offers a tax base that cannot run away, unlike capital or labour;
- It encourages desired development;
- It imposes the greatest cost of holding undeveloped land where prices, and so values in alternative uses, are highest;
- It captures for the public purse a part of the benefits accruing to landowners from investments in infrastructure and other amenities by the public sector; and
- It makes user costs of ownership of land positive more often, improving the country's allocation of resources.

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4 *Tax by Design: the Mirrlees Review*, Institute for Fiscal Studies 2011 p371. The wider questions of taxing land and property are discussed in chapter 16 of the Review, which is available in full online.

5 Bentick (1979) 'The Impact of Taxation and Valuation Practices on the Timing and Efficiency of Land Use', *Journal of Political Economy*, 87, 859–68; Oates and Schwab (1997) 'The Impact of Urban Land Taxation: The Pittsburgh Experience', *National Tax Journal*, 50, 1–21.

6 *Tax by Design …*, 2011 pp371-2

> The last of these points needs elaboration. If expected capital gains on land are large, because prices are forecast to continue to rise at a rapid rate, the user cost of holding the property becomes negative. The reverse is true where house prices are falling. This makes the cost of land (and so of the housing built on it) lower where prices rise faster and vice versa. This reinforces the movement of economic activity and people towards the most dynamic regions from the least dynamic ones. A national land tax would partially offset this perverse operation of the price mechanism.

In addition LVT would be preferable to the existing taxes on property: council tax, business rates and stamp duty. The first two taxes were imposed occupied and developed land, discouraging development, while the third – stamp duty – was levied on transactions, lowering mobility and reducing liquidity. Mr Wolf acknowledged that there might be difficulties in valuing land, apart from any structure on it, "went on to address what, in his view, were the two key objections to the tax: "but insurance valuations might be used to place a value on structures, in which case land value is simply total value less the value of the structures on it. He also noted that the tax could impose cash costs on individuals with considerable capital but little income. "A possibility here, also applicable to current discussions of reform of council tax, is to roll up tax and recoup it when the asset is sold, developed or bequeathed."[7]

In 2006 Mr Wolf wrote a follow-up piece on LVT, drawing on work published by the Land Research Trust.[8] He argued that LVT would be "the natural, efficient and just way to finance the capital cost of infrastructure", providing a simple example of how this could work:

> In a busy town the average house price is £300,000, of which half is the cost of building (or replacing) the house and the rest the value of the land. Some way away is an isolated village. Here the identical house costs £200,000, of which just £50,000 is the land value. Consider what would happen if a road were built, for the first time, between the town and the village. Residents of the town would want to move to the village to take advantage of the cheap houses and the amenities. Assume, for simplicity's sake, that the benefit of the village's amenities to the marginal movers offsets the cost of the extra time they would spend travelling. The price of village houses must jump by £100,000. Owners of the village housing will capture the benefit of taxpayer-funded road-building. To them this will be a massive windfall gain. In general, the rise in the price of land will account for most, if not all, of the capitalised value of the surplus of benefits over costs to users of the infrastructure …
>
> Thus, increases in land values give not only a good indication of the benefits of infrastructure investments, but also provide an efficient and just way of financing their costs. It is efficient to tax these values because the tax would reduce the size of a windfall, while other taxes used to pay for infrastructure reduce effort, penalise the division of labour or discourage capital accumulation. It is also just, because the chief beneficiaries would bear the cost.[9]

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7 "Why on earth not put a tax on land?", 20 February 2004. See also, "A strong case for a tax on land values" *Financial Times*, 6 January 2006.

8 Fred Harrison, *Wheels of Fortune: Self-funding Infrastructure and the Free Market Case for a Land Tax*, Institute of Economic Affairs, 2006

9 "Land tax is something to build on", *Financial Times*, 9 June 2006

2 Practical problems with implementing LVT

In July 2004 the Select Committee scrutinising the Office of the Deputy Prime Minister published a report on local government finance, in which it considered the case for LVT. The Committee acknowledged some of the arguments for taxing land values, but concluded that the potential impact on householders on low incomes was too great:

> 186. Proponents of land value tax argue that if it were introduced there would be no need to retain the existing business rate and council tax, and that ultimately it could replace all taxation. The proponents argue that, "this tax would be fair, would be impossible to avoid, and would have beneficial economic and social outcomes".
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> The positive elements of the tax are outlined as:
> - "Administration is straightforward and valuation costs are reduced.
> - The tax is difficult to avoid or evade
> - Because the tax is tied to property, it can be localised and applied to any form of local or regional government structure."
>
> 187. A principal drawback of the tax is that it would penalise people who live on low incomes but are asset rich in property terms, most of whom are pensioners. Proponents of the land value tax state that "Single occupancy relief would be phased out: this encourages under-occupation and is vulnerable to avoidance and evasion. […]". In addition as Paul Woods from the Association of North East Councils identified: "The concern of a land value tax is that we are talking about a completely new tax, where with business rates you are just bolting something onto an existing, well-known tax system which we know can operate effectively."
>
> Proponents admit that it would not be a quick fix to the balance of funding problem but suggest that it could be an "attractive option for 2009". We believe that there are better ways to improve the current system than a land value tax.[10]

In 2005 the Institute for Public Policy Research (IPPR) published a series of essays on the case for and against land value taxation; one contributor to this report addressed the concern over the 'asset rich but cash poor' as follows:

> [One] objection, currently politically salient, is that any property tax including land tax penalises the 'asset-rich but cash-poor' – who in current debate are characterised as 'Devon pensioners'. The first, robust, answer, is that Devon pensioners should face the real opportunity cost of continuing to live in large houses, and they have the options of taking in lodgers or trading down to smaller houses. A softer answer is that the tax liability on a freehold house could be deferred if the householder cannot pay, and become a charge on the estate when the house is sold. Local authorities would be able to borrow against this debt owed to them, and would therefore not be deprived of a cash flow.[11]

In a second piece in the IPPR study, John Muellbauer, Professor of Economics at Oxford, argued that LVT could play a part in stabilising house prices: "instead of abolishing property tax at the height of booms [as he argues, occurred in the UK in the 1980s with the abolition

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[10] ODPM Select Committee, *Ninth report: Local Government Revenue*, 12 July 2004 HC 402 2003-04 p71. At this time responsibility for local government lay with the Office of the Deputy Prime Minister.

[11] Iain McLean, "The politics of land tax – then and now", in *Time for a land value tax*, ed Dominic Maxwell & Anthony Vigor, 2005 p25

of domestic rates] it is far better to maintain a tax linked to current or recent house prices throughout the house price cycle and that is thus a constant proportion of capital values":

> Such a tax will represent an increasing proportion of the value of the services yielded by housing (imputed rent) as house prices rise. Thus, tax as a proportion of imputed rent will rise and will automatically tend to choke off further appreciation as house prices rise relative to imputed rents and incomes. Furthermore, not only does this dampen appreciation of house prices, but it reduces household cash income and so the feed-backs that run from higher incomes to higher house prices, to higher consumer spending, to higher employment and higher incomes back to house prices. There is also an important expectations mechanism at work: if households extrapolate house price rises into the future, they will anticipate the greater tax burdens this will generate and so make more cautious spending and portfolio decisions. Conversely, in property market downturns, tax to income ratios will fall and this helps to soften recessions.[12]

In a third piece Richard Brooks, research director at the Fabian Society, argued that although the philosophical and economic case for land value taxes might be strong, the issue had "all the hallmarks of a political minefield"; in particular, "large numbers of people would be affected by any change; the status quo is seen to be unsatisfactory but there is little consensus about the appropriate response; and public understanding is low."[13]

The editors of the volume picked up on these concerns in their conclusions: "the gap between theory and policy is particularly wide in the case of Land Value Taxation … three issues are particularly pertinent: the knock-on consequences for the rest of the tax system, which always include an element of unpredictability; the difficult question of asset-rich income-poor pensioners, who are unlikely to be satisfied simply by the option to postpone payment; and the concentration of people who would be worse off who live in marginal seats."[14] The last of these issues was explained more fully by Richard Brooks:

> Council Tax is currently charged, and local authority tax bases are calculated, on the basis of 1991 property valuations. Since that time there has been massive but uneven property price appreciation in the UK … [and] property values have increased far more in the Greater South East of England than in other areas …. Any reform of Council Tax which addressed the highly regressive nature of the current system would generate large number of winners and losers. Further, the winners and losers would be geographically concentrated, with most of the losers in the more affluent and often more politically marginal areas of England.[15]

Some commentators have argued that reforming land taxation should begin with amending council tax.[16] (A basic description of council tax is given in the text box below.)

The Mirrlees Review argues that taxation is "one area of public policy where 'the tyranny of the status quo' is strongest', and highlights the unwillingness of governments to undertake the revaluation of council tax bands as "one of the most egregious demonstrations" of this tyranny "as a block to desirable change." The wider arguments over local government

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12 John Muellbauer, "Property taxation and the economy", in *Time for a land value tax*, 2005 pp38-9
13 Richard Brooks, "Commentary", in *Time for a land value tax*, 2005 p54
14 Dominic Maxwell & Anthony Vigor, "Conclusion", in *Time for a land value tax*, 2005 p65
15 "Commentary", in *Time for a land value tax*, 2005 p 54, 57
16 For example, Simon Jenkins, "Drop the 50p tax rate and target property – the gutsy Welsh way to go", *Guardian* , 6 March 2012.

finance are not addressed here, but Mirrlees has an interesting discussion of the reasons why council tax is so unpopular that would give any future tax reformer pause for thought:

> Council tax is an unpopular tax. There are a number of possible reasons for this. It is highly visible: 88% of tax is remitted by firms,[17] so for the vast majority of people council tax is one of the only taxes they are asked to pay personally.[18] This means people overestimate its importance. It also lacks buoyancy, which means that 'increases' have to be announced each year just to keep up with inflation, let alone growth in GDP.
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> Council tax can seem particularly onerous for the 'asset-rich, cash-poor' since, unusually, it is not linked to a pre-existing cash flow. But there is also evidence that people just find the idea of a tax linked to the value of their property unfair.[19] This seems to reflect the fact that perceptions of fairness in tax are more closely linked to the relationship of the tax to flows of income than to stocks of wealth. But, both because consumption of housing services is as legitimate a tax base as any other consumption, and because it is a good complement to current income as an indicator of lifetime income or ability to pay, this does not seem to us to be a good objection—at least not economically.[20]

On 26 June 2013 the Chancellor presented the Government's sets out plans for spending by Government departments for the single financial year, 2015/16.[21] In his statement Mr Osborne announced that the Government would "fund councils to freeze council tax for the next two years."[22] The Institute for Fiscal Studies gave a presentation on this spending review the following day, and in his opening remarks, the director of the IFS, Paul Johnson, argued that this approach indicated that the UK needed both "an effective property tax [and] … a robust source of funding for local government":

> The extension of the council tax freeze into a sixth year … is looking like one of those habits it is going to be hard to break … Council tax is an important part of the tax system. It is the main tax on property and raises more than £27 billion a year. Freezing it year after year reduces the real value of these revenues. By the end of 2015-16 revenues will probably be a good £3 billion lower than they would have been in the absence of these policies. And we know that the more often you offer one-off annual freezes to taxes the harder it is to unfreeze them.
>
> This has the potential to be a major reform to the structure of our tax system. However much council tax payers may welcome it this is not a sensible reform. And it is not one that is being properly announced or debated. We need an effective property tax and we need a robust source of funding for local government. This continuing policy looks set to undermine both.[23]

[17] 2006–07 figure. Source: Shaw, J., Slemrod, J., and Whiting, J. (2010), 'Administration and Compliance', in J. Mirrlees, et al., *Dimensions of Tax Design: The Mirrlees Review*, OUP for IFS.

[18] The other being vehicle excise duty

[19] Lyons, M. (2007), *Lyons Inquiry into Local Government—Place-Shaping: A Shared Ambition for the Future of Local Government, Final Report*, London: TSO, p226

[20] *Tax by Design …*, 2011 p18, 383. See also, "Chapter 9: Broad shoulders and tight belts: options for taxing the better-off", *The IFS 2013 Green Budget*, February 2013 pp 275-7

[21] The 2010 spending review determined departmental budgets for the period 2011/12 to 2014/15. For details see, *Background to the 2013 Spending Review*, Library standard note SN6642, 14 June 2013.

[22] HC Deb 26 June 2013 cc305-6; see also, HM Treasury, *Spending Round 2013*, Cm 8639, June 2013 para 2.20 and, *The outcome of the 2013 Spending Review*, Library standard note SN6673, 27 June 2013

[23] *The 2015-16 Spending Round – opening remarks by Paul Johnson*, IFS 27 June 2013 pp 3, 6-7

Council Tax

Source: Institute for Fiscal Studies, *A survey of the UK tax system*, November 2012 pp 29-3

On 1 April 1993, the community charge system of local taxation (the 'poll tax', levied on individuals) was replaced by council tax, a largely property-based tax. Domestic residences are banded according to an assessment of their market value; individual local authorities then determine the overall level of council tax, while the ratio between rates for different bands is set by central government (and has not changed since council tax was introduced).[1]

Table 10 shows the eight value bands and the proportion of dwellings in England in each band. The council tax rates set by local authorities are usually expressed as rates for a Band D property, with rates for properties in other bands calculated as a proportion of this, as shown in the table. But since most properties are below Band D, most households pay less than the Band D rate; thus, in England, the average Band D rate for 2012–13 is £1,444 but the average rate for all households is only £1,201.[2]

Table 10. Value bands for England, September 2011

Band	*Tax rate relative to Band D*	*Property valuation as of 1 April 1991*	*Distribution of dwellings by band (%)*
A	$^{2}/_{3}$	Up to £40,000	24.8
B	$^{7}/_{9}$	£40,001 to £52,000	19.6
C	$^{8}/_{9}$	£52,001 to £68,000	21.8
D	1	£68,001 to £88,000	15.3
E	$1^{2}/_{9}$	£88,001 to £120,000	9.4
F	$1^{4}/_{9}$	£120,001 to £160,000	5.0
G	$1^{2}/_{3}$	£160,001 to £320,000	3.5
H	2	Above £320,000	0.6

Source: Department for Communities and Local Government, *Local Authority Council Tax Base – 2011 England* (http://www.communities.gov.uk/documents/statistics/pdf/2030041.pdf).

Property bandings in England and Scotland are still based on assessed market values as at 1 April 1991; there has been no revaluation since council tax was introduced. In Wales, a revaluation took effect in April 2005 based on 1 April 2003 property values, and a ninth band paying $2^{1}/_{3}$ times the Band D rate was introduced. There is a range of exemptions and reliefs from council tax, including a 25% reduction for properties with only one resident adult and a reduction of up to 50% if the property is empty or a second home.[3] Properties that are exempt from council tax include student halls of residence and armed forces barracks. Low-income families can have their council tax bill reduced or eliminated by claiming Council Tax Benefit.[4]

Council tax, net of Council Tax Benefit, is expected to raise £26.3 billion in 2012–13.

Notes:

[1] Northern Ireland operates a different system: the community charge was never introduced there, and the system of domestic rates that preceded it in the rest of the UK remained largely unchanged – still based on 1976 rental values assessed using evidence from the late 1960s – until April 2007, when a major reform took effect. Domestic rates are now levied as a percentage of the estimated capital value of properties (up to a £400,000 cap) as on 1 January 2005, with the Northern Ireland Executive levying a 'regional rate' (0.3780% in 2012–13) across the whole province and each district council levying a 'district rate' (ranging from 0.2136% to 0.4092% in 2012–13). Reliefs are available for those with low incomes, those with disabilities, those aged 70 or over living alone, and full-time students, among others. (Source: http://www.nidirect.gov.uk/rates.)

[2] Source: http://www.communities.gov.uk/publications/corporate/statistics/counciltax201213update.

[3] Councils have the power to charge second homes up to 90% of council tax and empty homes 100%. The maximum discount they can give is 50% in both cases. Some empty properties are entirely exempt from council tax, e.g. those left empty by patients in hospitals and care homes.

[4] For details of Council Tax Benefit, see W. Jin, P. Levell and D. Phillips, A Survey of the UK Benefit System, IFS Briefing Note 13, 2010. Council Tax Benefit will be abolished as a national benefit in 2013–14, with local authorities in England and the Scottish and Welsh Governments being given grants to design their own council tax rebate schemes. For more information on these reforms, see S. Adam and J. Browne, Reforming Council Tax Benefit, IFS Commentary 123, 2012.

3 The ‘Barker’ and ‘Lyons’ reviews of housing & local government

The case for taxing land values was examined in two policy reviews established by the Labour Government in 2003-2004. First, in April 2003, Kate Barker was commissioned to review the “issues underlying the lack of supply and responsiveness of housing in the UK.”[24] In an interim report published in December 2003, Ms Barker noted that land ownership was subject to some form of tax in a number of other countries, including Denmark, which had a locally levied land value tax that increased in line with land prices:

> 7.23 Other countries operate tax systems that are sensitive, to a degree, to demand for land, often through a variation of a wealth tax. These can have the effect of ensuring that the costs associated with holding onto vacant land that could be more efficiently utilised for residential development are borne by the landowner (and thus go some way to internalising some of the negative impacts resulting from not bringing forward developable land) …
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> Since 1924 Denmark has levied a land value tax based on the market price of land, revalued every two years. Land tax is payable to the local authority and county based on a per thousandth share of the value of the land. Local councils set the amount for their area, varying the per thousandth share according to different types of land use. This is subject to a minimum of six and a maximum of 24 thousandths of the value of the land, giving an effective tax rate of 0.6 - 2.4 per cent of the land’s estimated market value. Such a tax raises the cost of holding developable land when demand, as expressed through rising market prices, increases. This should, absent other factors, make holding valuable land more expensive as development pressure increases, encouraging land release for development.

Ms Barker also noted some submissions she had received for taxing land values, though she did not give any views as to their relative merits:

> 7.24 Submissions to the Review have suggested similar taxation systems:
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> - the Liberal Democrat land value tax advocacy group ‘Action for Land Taxation and Economic Reform’ (ALTER)[25] argue that a land value tax would serve to make housebuilders concentrate on producing more plentiful and better quality housing suited to today’s needs, rather than seeking to profit from speculative land value appreciation; and
> - John Muellbauer[26] considers a system whereby a land value tax is levied on all land that is not occupied for residential use or publicly owned, as part of a wider reform to property taxation. Such a system would he argues, generate efficiency and stabilisation gains for the economy as a whole and, drawing on experience from the Danish system, could improve the functioning of the land use planning system.[27]

In her final report Ms Barker discussed a variety of ways that land value taxes could be applied, though she focused on its potential to boost the supply of land for housing:

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[24] Material on the inquiry is collated on its site, at: http://www.barkerreview.org.uk/

[25] ALTER submission to the Barker Review Consultation (2003)

[26] John Muellbauer submission to the Barker Review Consultation (2003).

[27] Kate Barker, *Review of Housing Supply Interim Report – Analysis Securing our Future Housing Needs*, HM Treasury December 2003 p 117

> Most land value taxes … appear to be of limited use in stimulating the supply of land for housing given the nature of the planning process. That is not to say that land value taxes could have no part to play in the wider economy. The combination of a potentially wide tax base and the fact that land is physically 'fixed', which makes avoidance and concealment of the asset and its tax liability very difficult, point to land value taxation as a good method for raising revenue without distorting behaviour; indeed, it could encourage better behaviour. Such taxes may also have a useful role in recapturing for the public purse part of the uplift in land values that can occur as a result of public investment. Furthermore, some advocates of a land value tax view such a method of taxation as increasing social justice. However, the broader merits of the greater use of land taxation lie beyond the scope of this Review.[28]

In July 2004 the Labour Government established a review of local government finance, led by Sir Michael Lyons; Sir Michael's final report was published alongside the 2007 Budget.[29] An interim report was published in December 2005, which discussed the question of using a tax on land values to finance local government. First, Sir Michael sketched out the case for an LVT, while noting there were few examples of this type of tax working in practice:

> Land taxation
> 2.92 Current UK property taxes – council tax and business rates – tax the combined value of a property and the land on which it stands. Some argue that there would be economic efficiency and equity benefits from taxing the value of the land alone. I received a number of submissions on the subject and also spoke to its proponents.
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> 2.93 These submissions, and NERA's work,[30] highlighted a number of economic arguments in favour of such a tax:
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> - it would not distort behaviour in the same way as taxes on income and profits because, as there is only a finite amount of land, its supply will not vary if its cost changes. All of the income from it is unearned 'economic rent' (a technical term which refers to the income a factor of production generates above that which it would generate in its next best use) and thus can theoretically be taxed without having an impact on the market;
> - it would provide an incentive for the effective and efficient use of land because all land would incur a charge, even when it was not being used for productive activity, thus making the cost to society of its under-use clear to owners; and
> - taxing land values can enable some of the increase in value that results from a prosperous economy and public investments to be captured by local government. This can provide an incentive for local authorities to support economic growth and development, and potentially an efficient way of financing infrastructure projects (though other forms of local tax, including property, and corporate or personal income taxes could also be linked to local economic success if they were locally retained).
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> 2.94 There are very few examples of 'pure' land value taxes elsewhere in the world. However, taxes based on separate assessments of the value of the land and the property exist in over 700 cities, including in Australia, the USA and Eastern Europe. Land value taxes have been considered in the UK on a number of occasions, and

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28 *Housing Supply: Delivering Stability: Securing our Future Housing Needs - Final Report: Recommendations*, March 2004 para 4.22

29 Material on the inquiry is collated on its site, at: http://www.lyonsinquiry.org.uk/

30 [The inquiry commissioned a literature review of actual and suggested local tax options from NERA Economic Consulting; one part looks at land value taxation: NERA, *Options for Reforming Local Government Funding*, December 2005 pp 39-45].

variants were almost implemented in 1909 and 1931.[31] Vale of White Horse District Council and Oxfordshire County Council have recently conducted detailed and innovative work to study the practicalities and implications of introducing a land value tax in England.[32]

Sir Michael listed several logistical challenges to introducing LVT, but made no firm recommendation as to whether it should be pursued or not:

> 2.95 There would be a number of challenges to implementing a Land Value Tax in England. Replacing council tax and business rates entirely would lead to significant changes in household and business tax liabilities. It might have disadvantages as a local tax, since it is linked to the value of the land under the property, not to the number of households using local services. It would also require further work to survey and value all land in the country, as there is currently no national register of land ownership.
>
> 2.96 Kate Barker's Review of Housing Supply looked, as part of its work, at the arguments for land value taxation, including a number of more limited types of land tax.[33] One of its recommendations was that the Government should introduce a tax on the increase in value created when planning permission is granted for a development. The Government has now announced consultation on such a tax, the Planning Gains Supplement, and envisages that local authorities would retain most of the revenue for investment in infrastructure, which could improve the incentives for local government to encourage growth in housing supply. The Barker Review also concluded that a land value tax on derelict brownfield land (which currently faces no tax) might have a role in future in providing incentives for development, particularly where expenditure on remediation and decontamination is required. This line of thinking also raises questions about the justification for the set of reliefs for empty property which exist in the current business rates system.
>
> 2.97 I am particularly interested in exploring taxes which could improve the incentives faced by local authorities by providing a link between resources and local development and population change. Whilst the new prudential borrowing powers are an important new flexibility, local authorities may be constrained in making full use of them by current constraints on revenue to finance additional borrowing. Revenues from taxes linked to the success of the local area may provide such revenue streams and enable authorities to make beneficial long-term investments, though they may vary with the economic cycle. I will consider these options further over the next year.[34]

Sir Michael's final report did not discuss LVT in any detail, simply noting the options for using the receipts from a 'Planning Gain Supplement'.[35] As mentioned in the extract above, this was to be a charge on the granting of planning permission which Kate Barker had proposed in her review of housing supply. In October 2007 the Labour Government announced it would *not* proceed with this reform, but introduce legislation to allow local authorities to impose a

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31 Connellan, O., *Land Value Taxation in Britain: Experience and Opportunities*, 2004

32 Oxfordshire County Council and Vale of White Horse District Council, *The Oxfordshire Land Value Tax Study*, 2005

33 HM Treasury, *Delivering Stability: Securing our Future Housing Needs*, 2004

34 Lyons Inquiry into Local Government, *Consultation Paper & Interim Report*, December 2005 pp 75-6

35 Lyons Inquiry into Local Government, *Place-shaping: a shared ambition for the future of local government*, March 2007 pp 314-5

new charge on new development.[36] Provision for this 'Community Infrastructure Levy' – as it is termed – was made in the *Planning Act 2008*.[37]

Turning back to the Mirrlees Review, the authors point out one advantage of LVT over development taxes is that it would not create similar incentives for landowners to delay development:

> A number of unsuccessful attempts have been made to capture the rents arising from change in designation through the introduction of 'development taxes' or 'betterment taxes', in 1947, 1967, 1973, and 1976. Each attempt has ended in failure, in large part as a result of lack of credibility over the long-term sustainability of the tax.[38] There has been a clear incentive to wait for a reversal of the policy before applying for planning permission. More recent proposals to introduce a Planning-Gain Supplement were worked up and consulted on in some detail but were eventually dropped in 2007 in favour of an extension to the less formal system of planning charges. These do capture some of the value uplift from granting of planning permission but, historically, have been less transparent, predictable, and consistently applied than either a national planning-gain supplement or an LVT would be.
>
> Since LVT would be levied annually rather than just at the point planning permission was granted, it would not create the same incentive to delay development in the hope that the policy would be reversed. Even if the LVT were abolished again, delaying a planning application for a year to wait for its abolition would save at most only a proportion (the tax rate) of the value of having planning permission for the one extra year. Unlike with a planning gains tax, the main gain from the abolition of LVT—the removal of all future years' liabilities—would be felt whether planning permission were granted before or after its abolition, so there is no advantage to be had by waiting.[39]

4 Recent discussion of taxing land values

In 2011 the Treasury Committee published a report on the principles of tax policy – and in the course of the inquiry, the Committee received a number of submissions on LVT; the Committee noted its appeal while underlining the problems to implementing such a tax:[40]

> The supporters of such a tax consider that it would tax economic rent rather than economic activity and would meet the OECD criterion that recurrent taxes on immovable property were the least harmful tax.[41] However, as the CBI notes, "the OECD acknowledges that it is politically difficult for governments to shift the tax base onto property" (Ev w107). The ICAEW warned "Our initial conclusion is that, even if such a move was desirable economically and let alone whether it would be politically acceptable, it would involve a major rebalancing of the UK tax system which would take time to achieve and risks introducing considerable distortions and behavioural changes" (Ev w89).

36 *Pre-Budget Report* Cm 7227 October 2007 para 6.16-7; HC Deb 9 October 2007 cc25-7WS

37 A Library standard note gives more details: *Community Infrastructure Levy*, SN3890, 22 May 2013. For background on the PGS, see Library Research papers 07/04, 10 January 2007 & 07/13, 14 February 2007.

38 The history is well set out in the Barker Review (Barker, 2004, box 4.2).

39 *Tax by Design …*, 2011 pp 372-3

40 *Principles of tax policy*, 15 March 2011 HC 753 2010-11 paras 11-12

41 OECD(2010) *Tax Policy Reform and Economic Growth*, OECD Publishing p10

> Not only are there political difficulties: practical matters, such as the way in which such values would be assessed and the extent to which such a tax should take account of the current or the potential use of land, would also need careful consideration. We also note concerns that "While such a tax system would avoid distortions in economic behaviour, it would be highly unlikely to yield sufficient revenues to fund socially useful expenditure without producing substantial inequity."[42]

The Mirrlees Review acknowledged that there would be practical difficulties in valuing land separate to any structure erected on it, but suggested that this did not make LVT infeasible:

> If there were a competitive market for land, with a high number of transactions, then the value of land would be directly observable. But in most areas and sectors, the number of transactions in land (separate from any buildings thereon) is low. In the absence of a sizeable market, it is difficult to determine what the market price would be. It is worth noting that since we are looking at taxing a rent, the figure for land value does not have to be exact—or even approximate—for the LVT to be efficient. The value of each plot of land falls by the present value of the tax imposed on it; in principle, each plot could be taxed at an arbitrarily different rate without compromising the efficiency of the tax.
>
> However, to the extent that valuations are not accurate, inequities will be created between taxpayers—just as they can be created by inaccurate valuations under the current property tax regime, but the inequities will be worse if the valuation is less accurate. So is it possible to determine the value per acre of land given the thinness of the market? We cannot answer that for certain, but there are reasons to believe that it may not be impossible. There are some transactions to work with—enough, indeed, for the VOA even now to publish estimates of land values for residential and industrial land at some level of disaggregation (by town, for example).
>
> There are recognized methods for determining land value where the market is thin: where similar buildings are valued differently according to their location, for example, it is not hard to imagine that the difference in overall value reflects the difference in land values. We are also encouraged by the considerable international experience of land valuation— in Denmark and in various US and Australian states, for example.[43] … A recent review of US evidence[44] suggests that successfully implementing and administering a land value tax is feasible. We are not in a position to make such a judgement for the UK, but we propose that government should study the feasibility of such a tax.[45]

To date the Government have shown little interest in studying the feasibility of LVT.[46] However there has been more discussion of the issue, in part due to current pressures on the public finances, and concerns about further demands on public services from an ageing population.[47] A report on housing market volatility published by the Joseph Rowntree

42 OECD 2001, *Tax Policy Studies No. 6, Tax and the Economy: A Comparative Assessment of OECD Countries*, p 17, see also OECD (2010), *Tax Policy Reform and Economic Growth*, pp 51-2, 92-94

43 Japan, South Korea, and Taiwan also have experience of LVT. Andelson (2001) [*Land-Value Taxation around the World*, Oxford: Blackwell Publishing.] contains details on international experience.

44 Dye, R., and England, R. (eds) (2009), *Land Value Taxation: Theory, Evidence and Practice*, Cambridge, MA: Lincoln Institute of Land Policy

45 *Tax by Design …*, 2011 pp374-5

46 See, for example, HC Deb 19 May 2011 c329W

47 Eg, Samuel Brittain in the *Financial Times*: "It is time to tax England's green and pleasant land", 24 February 2012 & "How to put the liberal back into the Liberal Democrats", 14 September 2012; George Monbiot in the *Guardian*: "A telling silence", 22 January 2013. For an exchange of views see, "Letters: What we are talking about is the value of land & An ongoing tax on capital, surely", *Financial Times*, 28 February 2012.

Foundation in 2011 suggested the gradual replacement of council tax by either a national property tax or land value tax;[48] a follow-up report argued it was worthy of "serious consideration."[49] In September 2011 the Conservative MP Nicholas Boles wrote an opinion piece for the *Financial Times* in which he argued for a land tax, provided the scope of the tax excluded homes and farmland:

> The holy grail for every Treasury economist is a tax that costs little to collect and does not reduce people's incentives to do the things that we want them to do. But, like every holy grail, this tax has proven elusive so our public finances rely on a range of taxes that penalise people for doing a whole range of things that, right now, we badly need them to do more of. In current circumstances, one of the most pernicious taxes is national insurance as it punishes employers for taking on new people and, because we have a fairly free market in labour, reduces people's take-home pay just as surely, though a little more indirectly, than income tax. But if we want to cut this tax on jobs and wages, we need an alternative source of revenue that is reasonably easy to collect and which is less damaging in its effects on people's incentives to invest, expand and hire new people …
>
> There is a version of the Land Value Tax that works – and it is in operation in New South Wales in Australia. Crucially, farmland and people's main homes are wholly exempt … The tax bears down on vacant land, holiday homes, investment properties and commercial properties. If we were to implement it in the UK, it would need to be deductible from business rates so that struggling retailers and other firms were not faced with a devastating double whammy – and it might in time replace business rates altogether. Thus targeted, the tax would deter speculative land banks and would encourage property owners to develop brownfield sites and put rundown areas of inner cities back to good use. Over the longer term, it would lower the price of development land and help us get off that quintessentially British rollercoaster of house price booms and busts.[50]

The Green Party MP Caroline Lucas has also made the case for an LVT. Ms Lucas presented a Private Members Bill in the 2012-13 Session to require a Government-feasibility study, though this did not secure a second reading debate.[51] The Member set out her case to the House in the debates on the summer adjournment in July 2012:

> One of the great advantages of a land value tax is that it would be very hard to dodge, avoid or evade. It would encourage more efficient and sustainable use of land and avoid distorting business behaviour, as our current business rates do. Business rates are levied as a percentage of the estimated rental value of the property, and the effect of that is to skew economic activity away from property-intensive production and to create a perverse incentive not to use or properly develop brownfield land first. Crucially, an LVT could discourage boom and bust in property, giving incentives against disproportionate amounts of capital being tied up in property and unsustainable accumulation of debt …
>
> In responding to the questions that I have put to the Government so far on LVT, they have always fallen back on the work done by Sir Michael Lyons in his 2007 inquiry

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[48] Mark Stephens, *Tackling housing market volatility in the UK*, JRF May 2011 pp49-50

[49] *Tackling housing market volatility in the UK: a progress report*, JRF September 2012 – see also, "Could we build a better future on a land value tax?", *Guardian*, 16 September 2012.

[50] "It sounds bonkers but we should embrace a land tax", *Financial Times*, 30 September 2011

[51] *Land Value Tax Bill* (Bill 45 of 2012-13). The Bill was presented on 25 June 2012. See also, Andy Wightman, *A Land Value Tax for England,* March 2013 – a report commissioned by the Member.

into the role, function and funding of local government. There are many criticisms of the Lyons report and there have been dramatic economic changes since it was released, the most obvious of which is the 2008 crash, which make Lyons' analysis of land value taxation out of date. I have introduced a private Member's Bill which … calls on the Treasury to do a serious piece of work that looks into how land value taxation might replace business rates and, subsequently, council tax, and that takes account of transitional arrangements as necessary ... The economic case is strong. If we took the wider view to see how such a transition could be made, I think we would find that such a tax would be sensible, efficient, effective and progressive.[52]

Finally in March 2013 the IPPR published a report on options for taxing property and wealth; the authors noted the various practical challenges to establishing a LVT, and concluded that, while these were not "necessarily insurmountable", successful reform would "take a lot of detailed work":

> As with property taxes, the practical challenge is how to value land and ensure values are updated regularly. Valuing residential property is relatively straightforward because there are many transactions each year but land changes hands much less frequently. The value of property would have to be separated from the value of the land on which it sits, which can be difficult in practice. In addition, around 30 per cent of land in England and Wales is not registered with the Land Registry, making it difficult to ascertain its ownership and value.[53]
>
> These are not necessarily insurmountable problems but it would take a lot of detailed work to devise a robust and sustainable system of land value taxation for the UK. Countries with a functioning land value tax have dealt with some of these issues. For example, land in Denmark is valued using a 'hedonic' pricing model based on the compulsory registration of all land transactions. This model uses information about the characteristics of land (location, transport links and so on) that is sold to estimate the value of other land.[54]

5 A Mansions Tax

5.1 Liberal Democrat proposals in the 2010 Election

One variant of a tax on land values has gathered a considerable amount of attention since it was proposed by Vincent Cable, then Liberal Democrats Treasury spokesman: the so-called 'mansions tax'. Dr Cable mentioned the possibility of imposing an annual tax on land values to stabilise prices, when he gave the annual IFS lecture in July 2008:

> In principle it should … be possible to apply property taxes in a countercyclical manner. Stamp duty already operates counter cyclically since falling house prices lead to lower duty paid and lower rates. However, unfortunately, Britain does not have a national tax based on current property values, of the kind operating in Denmark, based on annual revaluations. One useful counter cyclical measure would be to shift the tax base of business rates to land values – including unused land – increasing the cost of holding land banks in booms but easing the burden in slumps which are transmitted to land prices.[55]

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52 HC Deb 17 July 2012 cc938-9
53 HC Deb 28 January 2010 cc1027-8W
54 IPPR, *Property and wealth taxes in the UK: the context for reform*, March 2013 p23
55 *Institute of Fiscal Studies Annual Lecture: Vincent Cable MP*, 7 July 2008 p14

In September 2009 Dr Cable went further to suggest an annual levy on properties over £1m[56] – an idea widely criticised for imposing a punitive charge on far too many households – many of which would be in marginal constituencies, crucial to future electoral success.[57] By contrast, Martin Wolf argued that Dr Cable's mansion tax was "the germ of an excellent idea":

> Council tax is a good tax only in comparison to the disaster it replaced - Margaret Thatcher's unlamented "community charge" … Council tax was launched in March 1991. Even today, astonishingly, the bands are based on the valuations of April 1991 … All houses in the top band - above the then-valuation of £320,000 - pay the same tax. Today, the equivalent would be a little over £900,000 if one uses the average rise of the FT House Price Index. Intriguingly, that sum is very close to Mr Cable's threshold value of £1m.
>
> The case for imposing a proportional tax (proposed by Mr Cable at a mere 0.5 per cent) above this sum is, as Mr Cable himself has noted, that "Messrs Mittal and Abramovich in their £30m palaces pay the same as a [top band] family home, though their properties may be worth 40 or 50 times as much"… The UK should either impose several further upper bands on the council tax, or a proportional tax within the top band. It would be better still if the council tax itself were proportional. That would work best if properties were revalued regularly. This is far from impossible: many high income countries manage it. All that is needed is data on recent transactions and a computer programme. This is not rocket science.
>
> At this point, people will bleat about the injustice done to the house-rich, income-poor elderly. My reaction is: tough. The UK has decided to make it as difficult as possible to expand the supply of housing. Can it then really make sense to encourage the elderly to remain in valuable houses that are far too large for them? The costs of this policy for families with young children are horrifying, forcing them into poky little flats. Making people rethink where they live, as their needs change with age, is one of the arguments for property taxes. But if we really do want to keep the elderly in their family homes, we can capitalise the property tax and take it from estates, on death. The state is the country's most solvent bank. It can finance this very readily.[58]

Concerns about the numbers of homeowners who would have to pay the tax lead to these proposals being revised a few weeks later: the 1% annual levy would now apply only to the value of a property in excess of £2m.[59] The revised mansions tax was included in the Party's 2010 General Election manifesto, along with the suggestion that business rates should be based on land value, rather than the rental value of the property, as they are at present.[60] In their assessment of the main party's tax proposals, the Institute for Fiscal Studies raised two concerns about how the Liberal Democrats new tax might work in practice. First, the tax would require a valuation of the existing housing stock, and to limit the cost of this exercise, it had been proposed that only those properties that were in the highest council tax band would be revalued. This would have serious repercussions for the projected yield of the tax:

> The Liberal Democrats propose to introduce an annual 1% tax on domestic property values above £2 million, so that a £5 million property would attract a tax bill of £30,000 a year (1% of £3 million). They estimate that about 70,000 properties (barely 1 in 400

56 Liberal Democrat Party press notice, *Vince Cable's speech to Conference*, 21 September 2009
57 "Cable accused of planning 'unworkable' mansion tax", *Guardian*, 21 September 2009
58 "Why Cable's mansions tax is right", *Financial Times*, 25 September 2009
59 *Liberal Democrat Tax Plans*, 30 November 2009
60 *Liberal Democrat Manifesto 2010: Change that works for you*, April 2010 p14

domestic properties), worth an average of £4.4 million each, would attract tax bills averaging £24,000 a year, yielding £1.7 billion in total.

These are huge tax increases on affected properties, and would significantly reduce the value of the properties, which might lose up to 20% of the portion of their value above £2m if it were believed that the tax would remain in place permanently. For example, a property worth £3 million before the reform might lose up to £200,000 in value while a property worth £10 million before the reform might lose up to £1.6 million in value.[61]

Although the £1.7 billion estimated yield does not look unduly optimistic, there is considerable uncertainty as to exactly how much the reform would yield. There are simply no current data on the distribution of UK property values – the last time all domestic properties were valued was in 1993, based on estimated 1991 values, for council tax – which is still based on those 19-year-old values. Indeed, introducing a mansion tax would entail some additional administrative cost in estimating the value of those properties that it is thought might be worth more than £2 million. The Liberal Democrats propose to limit the cost by valuing only properties in the highest council tax band – about 144,000 out of some 26.4 million properties in Britain – meaning that any properties in lower bands that are nevertheless worth more than £2 million would escape the tax. Since such properties would have to have risen in value by at least twice the national average since 1991 to be worth more than £2 million now, this seems unlikely to exclude many properties that ought to fall within the tax.

Second, it was anticipated that any affected households would have an option to defer payment of the new charge – although this too could have a significant impact on the amounts any government would hope to raise from taxing mansions:

The Liberal Democrats propose to allow anyone affected by the new tax to defer payment for up to two years, and until sale of the property if the owner is aged over 65 (and does not have a mortgage worth more than half of the property value). They say that any deferral would be "index-linked". If deferral were with interest, then it would have no cost to the Government in present value terms (assuming eventual payment could be relied upon) and would, as the Liberal Democrats suggest, "help people who fall into temporary financial difficulties" – although how many owners of £2 million properties can really be described as in "financial difficulties" must be open to question.

But if "index-linked" means (as it normally does) that payments would be deferred with only an inflation adjustment, then everyone affected would (at least in periods when real interest rates are positive) have an incentive to defer payment for as long as possible to earn interest on the money in the interim, and this deferral would entail a cost to the Exchequer in present-value terms since the Government would correspondingly be paying interest on its higher borrowing while awaiting payment. Allowing deferral also complicates the tax somewhat, and must raise some concerns as to whether the deferred tax bill would ever actually be paid.

Nevertheless the authors went on to conclude that the tax was "fundamentally well designed": "if property is to be taxed, it makes sense to levy such a tax in proportion to property value and to base it on up-to-date valuations – neither of which council tax does, with the result that high-value properties are under-taxed relative to lower-value properties,

61 Calculations assume a 5 per cent discount rate. The falls in value cited assume the number of mansions is unchanged; if the number of mansions were reduced in response to the reform (a possibility discussed below), those that remained would fall less in value; but we doubt that the number of mansions would fall by very much in practice.

making council tax regressive, and that properties that have risen most in value since 1991 are even more under-taxed.[62]

However, in the Coalition Agreement made by the Conservatives and Liberal Democrats after the 2010 Election, the new Government made no mention of a mansions tax,[63] a casualty of the negotiation process as noted at the time by BBC economics editor, Stephanie Flanders.[64] In subsequent Budgets the Government have not made any proposals for reforming council tax or introducing a new charge on 'mansions'. In the weeks leading up to the Budget in March 2012 there were many reports that the Liberal Democrat members of the Cabinet were advocating this reform, without success.[65] At this time the director of IFS, Paul Johnson, wrote in the *Financial Times* suggesting that while calls for a mansion tax reflected quite legitimate concerns about the taxation of housing, on its own a new charge on £2m houses was an inadequate solution:

> As set out in the 2010 Liberal Democrat manifesto [the 'mansion tax'] this would involve a levy on residential properties worth over £2m, charged at 1 per cent of the value of the property above that level. Is this a good idea? There is unquestionably a problem with the way we tax housing. Council tax is levied according to the relative values of properties back in 1991. Every year this becomes an ever more absurd basis. It is also regressive: occupiers of lower value properties pay a higher fraction of their property value in tax than do occupiers of higher value properties.
>
> Thinking about the system as a whole – as we always should when considering a reform to any individual tax – council tax is best seen as a tax on housing consumption, standing in place of VAT. At present no VAT is paid when a new-build house is bought. Nor is there any VAT on the "consumption" of housing while a property is occupied. This is an anomaly that could be rectified through a flat annual percentage charge on the consumption value of the property. In other words, a tax that rises in line with up-to-date property values. This would be progressive: those in the most expensive properties would pay much more but most people would pay slightly less. We wouldn't charge a lower rate of VAT on a Ferrari than on a Nissan Micra. Effectively, though, we are charging a much lower rate of consumption tax on a £5m mansion than on a £50,000 flat. So a mansion tax does reflect a critique of the current system. But a fuller response is needed.[66]

5.2 Labour Party proposals in 2013 & 2014

In February 2013 the Labour leader Ed Miliband gave a speech on economic policy in which he revived the idea of a mansions tax. Mr Miliband argued that the receipts from imposing a tax on houses worth over £2m could be used to introduce a 10p starting rate of income tax – though he gave no details of how much he anticipated the tax could raise, and, similarly, what band of income a 10p rate would cover:

> It is different choices and new priorities that will turn our economy around. That means starting by protecting the incomes of working people with new priorities in taxation. The One Nation Labour government led by me will put a fairer tax system at the heart

[62] Stuart Adam et al., *Taxes and benefits: the parties' plans: IFS Election Briefing Note*, 27 April 2010 pp42-45
[63] in its discussion of local government, the agreement simply states, "We will promote the radical devolution of power and greater financial autonomy to local government and community groups. This will include a review of local government finance (*The Coalition: our programme for government*, 20 May 2010 p11).
[64] "Give and take", *BBC news online : Stephanomics blog*, 12 May 2010
[65] For example, "Mansion owners can sleep easy but top earners may take pensions hit", *Times*, 7 March 2012
[66] "Taxing tycoons and mansions is not a strategy", *Financial Times*, 15 March 2012

> of its new priorities …
>
> Let me tell you about one crucial choice we would make, which is different from this government. We would tax houses worth over £2 million. And we would use the money to cut taxes for working people. We would put right a mistake made by Gordon Brown and the last Labour government. We would use the money raised by a mansion tax to reintroduce a lower 10 pence starting rate of tax, with the size of the band depending on the amount raised. This would benefit 25 million basic rate taxpayers … Britain's economic success will be built by the many, not just by a few at the top. That is why Ed Balls and I want a 10 pence tax rate and a mansion tax in government. We've rightly said that we will only set out our tax and spending commitments at the next general election. That is the way a responsible opposition should conduct itself. However this is a clear signal about the priority we attach to a fairer tax system and the living standards of working people.[67]

Mr Milliband did not give further details at the time, although the Shadow Chancellor, Ed Balls, was reported to have suggested that the tax would raise about £2bn.[68] Most of the immediate responses to the speech focused on the proposal to reintroduce a 10p starting rate of income tax, though the IFS published a short commentary which argued that the mansions tax reflected "a problem with the current tax system … but does not take the idea forward to its logical conclusion":

> Mr Miliband did not give precise details of the design of his 'mansion tax' in his speech, but a similar proposal from the Liberal Democrats in their 2010 General Election Manifesto would have involved a tax based on 1% of a property's value above £2 million. Thus, a property worth £3 million would face a charge of £10,000 a year. No firm costings are available for such a tax, but in 2010 the Liberal Democrats estimated that 70,000 properties would be affected and the total yield from this tax would be £1.7 billion a year, implying that the average charge would be over £24,000 per year. Of course, a higher or lower charge could raise more or less revenue.
>
> The 'mansion tax' has a sensible logic underpinning it: if residential property is to be taxed, it makes sense to levy such a tax in proportion to property value and base it on current valuations. By contrast, Council Tax, the existing tax on residential property in England and Scotland, has neither of these features as it is based on 1991 property values and is set far from proportional to those values, with higher-value properties significantly under-taxed: for example, in a local authority setting the current English average band D rate, someone with a property at the midpoint of band D will pay 1.85% of its 1991 valuation in Council Tax whereas someone with a property at the midpoint of band G will pay 1.00% of its 1991 valuation.
>
> Therefore, rather than adding a mansion tax on top of an unreformed and deficient council tax, it would be better to reform council tax itself to make it proportional to current property values. As with the mansion tax, it would be the most valuable properties that saw the largest increases in tax liability from such a reform.[69]

Writing in the *Local Government Chronicle*, Tony Travers argued that Mr Miliband's speech "is the latest sign that domestic property tax is heading in two very different directions":

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67 Labour Party press notice, *Speech by Ed Miliband : Rebuilding Britain with a One Nation economy*, 14 February 2013. See also, "Miliband attempts to shake off Brown legacy", *Financial Times*, 15 February 2013

68 "Ed Miliband backs 'mansion tax' to fund 10p tax rate return", *BBC News online*, 14 February 2013

69 James Browne et al., *Better options exist to help low earners than 10p tax rate: IFS Observations*, 14 February 2013

> Council tax is dying … The Westminster government and opposition are so spooked by the thought that a revaluation would lead to millions of 'losing' households that they will not even consider one … Yet the same national politicians are becoming ever-more interested in the idea of a mansion tax. Their concern derives from a distaste for the growing rich/not rich divide, a desperate need for tax revenues and a realisation that the top band of council tax applies in precisely the same way to properties worth £1m to £100m. Thus, if we continue along the current path it appears likely that at some point we will find ourselves with council tax gradually eroding in real terms while some kid of 'super council tax' or mansion tax is introduced.[70]

The issue was the subject of an Opposition Day debate on the fairness of the tax system held on 12 March 2013. Opening the debate for the Opposition, Chris Leslie argued that any revenue from a mansions tax "should fund the reintroduction of a 10p starting rate", though he did not set out in precise detail how the tax should be designed:

> There are ways of introducing a mansion tax that could take account of the specific circumstances in which people are asset-rich and cash-poor, but there would probably be very few such cases … [In a radio interview the Deputy Prime Minister, Nick Clegg] said that individuals in such circumstances might be able to defer payments until the house was sold or to "leverage" the value of the property by remortgaging. I am not sure that that strategy provides the complete solution to the conundrum, but I do think that those in the Treasury should turn their minds to how to tackle these rare circumstances. That is why our motion calls on the Government to bring forward proposals for us to consider in more detail.[71]

In response the then Exchequer Secretary, David Gauke, set out a number of concerns Conservative Ministers had about a new annual levy on mansions:

> We have always been quite clear that the proposed mansion tax is an issue on which the two parties in the coalition have differing views. Our Liberal Democrat colleagues have supported the principle for some time … In contrast, Conservative Ministers have very real concerns over such a proposal.
>
> We have concerns that a third of the properties in London worth more than £2 million have been in the same ownership for over 10 years, and that a mansion tax could hit asset-rich but potentially income-poor households … [This] would need to be addressed in the design and would obviously have an impact on the costing … [The tax] would be administratively burdensome for HMRC to operate, not to mention intrusive for the person having their home inspected. We would have concerns that in Labour's hands, the starting level for such a tax would not stay at £2 million for very long. What began as a mansion tax would soon become a homes tax.[72]

Following the 2013 Budget the Opposition raised the issue a second time when selected clauses from the Finance Bill were debated by the Committee of the Whole House.[73] On this occasion Chris Leslie argued that it was "time to help lower and middle-income households with an extra level of tax support, directed from a mansion tax", though, when asked, he

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70 "Editorial", *Local Government Chronicle*, 21 February 2013 p4. See also, Simon Jenkins, "Forget fairness: this mansion tax is ideological cowardice", *Guardian*, 20 February 2013.

71 HC Deb 12 March 2013 c164, c167. At a later stage in the debate the Shadow Treasury Minister, Catherine McKinnell suggested the mansion tax could raise £2bn, "to fund a 10p tax band of up to £1,000, benefiting 25 million basic rate taxpayers to the tune of £100" (*op.cit.* c210).

72 *op.cit.* cc176-7. In the event the Opposition's motion was defeated by 304 votes to 241 (c215).

73 HC Deb 17 April 2013 cc332-368

conceded that the party had not drawn up its own detailed proposals as yet.[74] The Liberal Democrat MP Stephen Williams set out his party's approach, underlining their view that this tax should apply to residential property only:

> We have said consistently that the mansion tax should be a 1% annual levy on the excess value of a property over £2 million. If a property is valued at £2.5 million, a 1% levy will be paid on £0.5 million—a mansion tax of £5,000 a year … The mansion tax, as the name suggests, is a tax on mansions. If a farmhouse on agricultural land was of mansion proportions and … was valued at more than £2 million, it would fall within the scope of a mansion tax, but the agricultural land itself—whether it is in the curtilage of the house or in the wider area of the farm—would not fall within …[its] remit …
>
> A criticism that is made of the mansion tax is what happens if a pensioner or someone on a low income is living in a house valued at more than £2 million—the so-called asset rich, but income poor. Our answer is straightforward. Someone in those circumstances would defer payment of the tax until the property was sold or their income rose to a level at which they were able to pay it. The most likely scenario is that when the property was sold, the deferred, rolled-up tax liabilities would crystallise and be met out of the proceeds of sale. That is the answer to the asset rich, income poor conundrum.
>
> Another major principle, which might help the Labour party, is that we see the mansion tax as a national tax. There is a debate to be had about what we do with our only existing property tax—the council tax—such as introducing higher bands, but that is a debate for another day. In any event, the council tax is a local tax and we are clear that the mansion tax, as the Liberal Democrats propose it, should be a national tax and form part of the rebalancing of the tax system away from taxes on work and enterprise and on to income from wealth speculation and pollution.[75]

In response the then Economic Secretary, Sajid Javid, reiterated concerns held by Conservative Ministers that the tax would hit "asset-rich but potentially income-poor households", and that it would be "administratively burdensome for HMRC to operate, not to mention intrusive for the person having their home inspected."[76]

In his 2012 Budget the Chancellor had announced the introduction of a new tax charge on "enveloped" dwellings: dwellings owned by a company, a partnership with a corporate member or other collective investment vehicle. In these circumstances the dwelling is said to be 'enveloped' because the ownership sits within a corporate 'wrapper' or 'envelope', and in the past this has been used by individuals to avoid paying stamp duty on the purchase of a high value property. The new Annual Tax on Enveloped Dwellings (ATED) came into force on 1 April 2013; a brief summary of its scope is given on HM Revenue & Customs site.

Legislation to establish ATED forms part 3 of the *Finance Act 2013*. The Labour Party's proposals for a mansion tax were discussed when these provisions were debated at the Committee stage of the Finance Bill; this was because, as Catherine McKinnell argued, the new tax had "paved the way for a mansion tax":

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74 HC Deb 17 April 2013 c342. When asked about the basis of the tax, Mr Leslie said "we based our proposal on the Liberal Democrats analysis that a mansion tax could be on the excess of £2 million of value , raising … £2 billion" (*op.cit.* c350).

75 *op.cit.* c349

76 *op.cit.* cc361-2. The Opposition had put down a new clause to require the Chancellor to "review the possibility of bringing forward a mansion tax on properties worth over £2m." In the event the new clause was negatived by 304 votes to 234.

> It will be useful briefly to set out how the new annual tax on enveloped dwellings will work. Where it relates to properties worth £2 million to £5 million, the charge will be £15,000; for properties worth £5 million to £10 million, the charge will be £35,000; for properties worth £10 million to £20 million, the charge will be £70,000; and for properties worth £20 million-plus, the annual charge will be £140,000 …
>
> It would appear … that the Chancellor has paved the way for a mansion tax with this measure … The ATED will be levied on homes controlled through corporate envelopes, rather than those owned by individuals or property developers. Therefore, in March, HMRC sent out 5,000 letters asking owners of some of the most expensive homes in the country to carry out professional valuations of their properties ahead of the looming annual residential property charge. It is estimated that half of those properties are owned by companies based offshore.[77]

In his response David Gauke cited some official estimates of the numbers of properties that would fall within the scope of a mansion tax, and went on to argue that it could not simply be applied on the model of the ATED:

> In Committee of the whole House, we expressed our real worries about the introduction of a mansion tax … We must bear in mind that, according to the most up-to-date assessment we have, 55,000 properties are worth more than £2 million. If a mansion tax were to raise £2 billion a year, the average contribution for each one of those properties would be just over £36,000 a year. That strikes me as a fairly significant sum of money, given that the vast majority of properties worth more than £2 million are in fact only just worth more than that—they tend to be clustered more towards the lower end of that price range …
>
> With regard to the ATED, there are around 5,000 enveloped properties above £2 million a year. About 1,000 of those are likely to be liable to the tax. That compares with 55,000 properties in the UK valued at or over £2 million. Immediately we can see that there is a difference in scale of administrative challenges.
>
> The ATED takes a self-assessment approach. We believe that is the appropriate approach given the number of properties involved. HMRC can then take a risk-based approach to checking those. If all properties over £2 million were included, there would be a much stronger need for a formal valuation process by the Valuation Office Agency. A valuation exercise by the VOA would cost around £10 million and take about 24 months, with further ongoing costs of around £2 million per annum. It would be extremely complicated because, at the high end of the market, the evidence of comparable transactions is limited. The specific characteristics of a property could have a significant impact on the valuation.[78]

Further details of this research on house values was given subsequently in answer to a PQ in the Lords; an extract is reproduced below:[79]

> The Treasury does not have a precise regional breakdown of properties worth over £2million. However, this can be approximated from the regional breakdown of residential property transactions over £2 million. The table below provides the regional breakdown of residential property transactions over £2 million in 201 1-12 by Government Office Region, drawn from HM Revenue & Customs' Stamp Duty Land Tax (SDLT) returns. In 2011-12, 71 per cent of residential property transactions over

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77 Public Bill Committee (Finance Bill), 15th sitting, 13 June 2013 cc471-3

78 Public Bill Committee (Finance Bill), 16th sitting, 13 June 2013 cc495-6, cc499-500

79 HL Deb 25 July 2013 ccWA239-41W

£2 million were for properties in Greater London, 17 per cent were in South East England, and 12 per cent were in the rest of the United Kingdom.

£2m+ transactions in 2011-12

	Number of transactions	Percentage
East Midlands	30	1
East of England	110	3
London	2620	71
North East	Less than 30	0
North West	70	2
Northern Ireland	Less than 30	0
Scotland	40	1
South East	630	17
South West	120	3
Wales	Less than 30	0
West Midlands	40	1
Yorks and Humberside	30	1
	100	

The research referred to by the Exchequer Secretary to the Treasury is a simple calculation arrived at by dividing £2 billion (which the Opposition have stated would be the amount they would seek to raise through a mansion tax) by 55,000 (an internal HMRC estimate of the number of properties valued at over £2 million) to give a 'mean' average of £36,000. The Treasury does not have an estimate of the median payment in respect of the estimated 55,000 properties liable to pay the Opposition's proposed mansion tax … The research, quoted by the Exchequer Secretary, was carried out as part of the usual Budget process by the Treasury.

Subsequently the Minister was asked if the Treasury had assessed the impact of a mansions tax on house prices:

Mr Clappison: To ask the Chancellor of the Exchequer what research his Department has carried out into the effects of a mansion tax in reducing property values; whether any such research was taken account of in the estimate of average mansion tax liability of £36,000; and if any estimate has been made of reduction in revenue arising from (a) stamp duty level tax and, (b) inheritance tax as a result of the introduction of a mansion tax.

Mr Gauke: The Treasury and HMRC have not carried out in depth research into the effects of a mansion tax in reducing property values; however it is expected that the imposition of a new annual levy would reduce the price of properties within scope of the tax. A mansion tax would be expected to depress stamp duty land tax and inheritance tax yields. The exact impact would be dependent on the rates and bands chosen.[80]

In September this year, in his speech to the Party conference, Ed Balls stated that the tax would be levied in "a fair, sensible and proportionate way [by] raising the limit each year in line with average rises in house prices. Putting in place protections for those who are asset rich but cash poor. And ensuring those with properties worth tens of millions of pounds make a significantly bigger contribution than those in houses just above the limit."[81] In his own to

[80] HC Deb 10 October 2013 cc348-9W. At this time the property company Knight Frank did a highly critical report on the potential impact of a mansion tax: "Taxing high value homes", September 2013.

[81] Labour Party press notice, 22 September 2014

the Conference speech, Mr Miliband simply confirmed the plan to have a tax on homes worth £2m or more. With this relative lack of detail, the press coverage of the conference did not appear to have added significantly to the existing arguments for, or against, the policy.[82] At this time the property search company Zoopla published some data, based on their estimates of current house values, which suggested that 88% of the potential revenues from the tax would come from London.[83]

In an article in the *Evening Standard* on 20 October, Mr Balls gave more detail as to some of the design features of the tax: the way the £2m threshold for eligible properties would rise in line with prices, how the banding structure that would apply, and how 'cash-poor' households would be able to defer the tax. He also confirmed that it was now anticipated the tax would raise £1.2bn a year:

> If we win the election we will raise £2.5 billion a year, on top of the Tory spending plans we inherit, for an NHS Time to Care Fund … £1.2 billion of this much-needed revenue will be raised through a tax on prime value properties worth more than £2 million today — less than 0.5 per cent of homes in our country … A tax on the highest-value properties must be done in a fair, sensible and proportionate way. Ordinary Londoners should be protected and wealthy foreign investors must finally make a proper tax contribution in this country. So this is what we propose.
>
> First, we will guarantee that more modest properties are not brought into the scope of the tax ... we will raise the starting threshold as prices rise. And rather than raising it in line with overall inflation, we will do so in line with the average rise in prices of high-value properties over £2 million. This will ensure that the number of properties paying the tax will not increase. If prime property prices continue rising then by the time the tax is introduced the starting point will be higher than £2 million.
>
> Second, the tax will be administratively simple. A banded system means valuations will not be needed for most properties as it will be clear which band — for example £2 million-£3 million — the property falls into. As with the Government's new tax on properties bought through companies, owners will be able to submit a self-valuation to HMRC.
>
> Third, as we have always said, the tax will be progressive. We will ensure those owning properties worth £2 million-£3 million will only pay an extra £250 a month through this new tax — the same as the average top band of council tax. Owners and investors in properties worth tens of millions of pounds should make a much bigger contribution. And we will look at asking overseas owners of second homes in the UK to make a larger contribution than people living in their only home.
>
> And finally … we will protect the small minority of people who are asset-rich but cash-poor. Long-standing residents who now find themselves living in high-value homes but do not have an income high enough to pay the higher or top rate of income tax — in other words earn less than £42,000 a year — will be guaranteed the right to defer the charge until the property changes hands.[84]

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[82] eg, "Labour's mansion tax plans condemned by estate agents", Guardian, 23 September 2014; "Editorial: A British property tax that is fit for purpose" & "Land of opportunity", *Financial Times*, 25 September 2014.

[83] The authors estimated that over 50% of revenues would be accounted for by just two London boroughs : Kensington & Chelsea, and, Westminster: *Labours mansion tax proposal*, 23 September 2014.

[84] The article is posted on Mr Ball's site: "A mansion tax will be fair, simple and pay to save the NHS", 20 October 2014. Given Mr Balls estimate of houses under £3m being charged £3,000, the *Financial Times* estimated that more expensive properties would pay, on average, £19,000 a year: "'Mansion tax' will mean bill of £250 a month, says Ed Balls", 20 October 2014

Mr Balls has also set out how home owners would self assess their liability, in an interview on SkyNews:

> Ed Balls [EB]: What we will do is use the same process that the government is doing around the Envelope Tax which is that you allow people to self-value but they will be able to pre-credit, to pre-approve with the HMRC. If the band is wide and you are right in the middle, it is clear that that's what your property is worth, you are in that band and you will just declare that as your value. But people who want to will be able to go to HMRC and say I'm around the border, this is my valuation and HMRC will approve. Of course people will choose if they want to and …
>
> Dermot Murnaghan [DM]: What happens if HMRC disagree? Do they have to go round your house and value your house themselves?
>
> EB: Look, it is a very normal thing if people are moving house or if they are getting a new mortgage to get a survey of the value done. I think many people around the value might choose to have a valuation done in order to show HMRC that they are below the level and I am sure HMRC would take a valuation as it stands.
>
> DM: So you have got to pay two or three hundred quid for a survey?
>
> EB: I think people who choose to will be around the transition level, whether that is two million or five million or ten million, can do so, we will have pre-approval from HMRC.[85]

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85 "Transcript of my interview on Murnaghan", *Ed Balls.co.uk blog*, 5 October 2014