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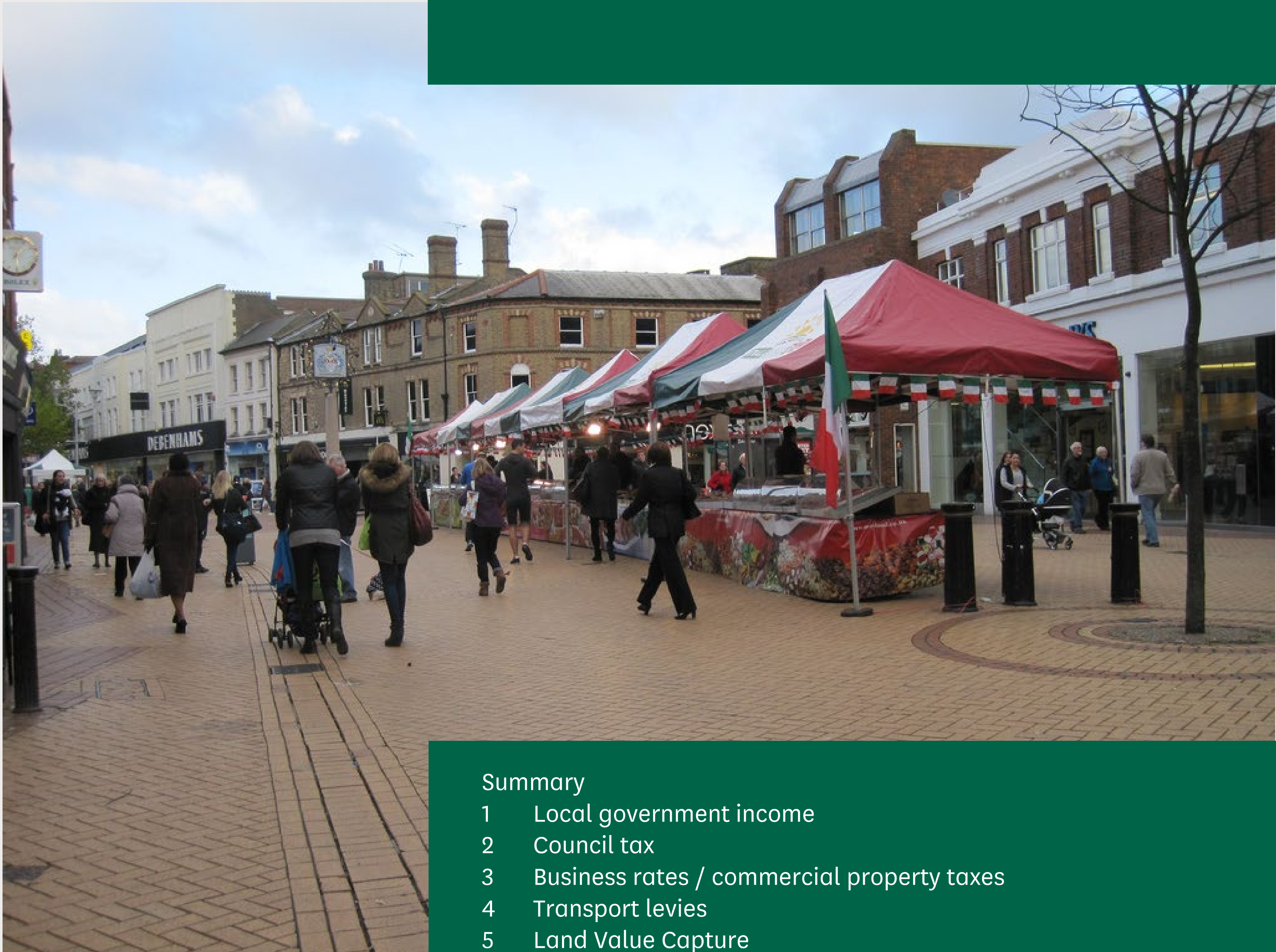
Research Briefing

24 January 2023

By Mark Sandford

Local government taxation



Summary
1 Local government income
2 Council tax
3 Business rates / commercial property taxes
4 Transport levies
5 Land Value Capture
6 Tourism tax
7 Alternative forms of local taxation

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Summary

Reforms to local government taxation have been the subject of debate in the UK in the late 2010s and early 2020s. This has occurred in the context of concerns regarding local authority financial resilience and low levels, in historical terms, of central government financial support.

This briefing paper explains the distinction between different types of local authority income, including taxes, transfer grants, fees and charges, and commercial income. Sections 2, 3 and 4 describe the main revenue raising powers available to local authorities in England: council tax, business rates and transport levies. They describe the degree of local control over the tax base, tax rate, and reliefs in each case, and the degree (if any) to which revenue is redistributed between authorities. Figures for revenues obtained from these taxes are provided where available.

Section 5 provides details about existing approaches to land value capture, including planning obligations (section 106 contributions), the Community Infrastructure Levy (CIL), and its proposed replacement, the Infrastructure Levy. It also includes proposals for alternative mechanisms, such as reforms to the treatment of 'hope value', development rights auction models, and transport premiums.

Section 6 provides information about proposals for a 'tourism tax' or 'transient visitor levy'. These are used in many other states. The paper describes recent developments in Scotland and Wales.

Section 7 provides a number of examples of existing national taxes which, in other states, are subject to 'sharing' arrangements with regional or local authorities. This can mean that local authorities obtain a proportion of the relevant tax that is raised in their area; or that a proportion of the national revenue from the tax is set aside for local government as a whole, but it is distributed according to some measure of need. The taxes covered in this section include income tax, VAT, payroll taxes, stamp duty, and vehicle excise duty. This section also briefly addresses land value taxation.

Local government finance is devolved to Scotland, Wales and Northern Ireland. Where this paper describes the operation of local government taxation, this principally concerns how it operates in England. Council tax and business rates operate in Scotland and Wales, each featuring a small number of differences from the English system. A system of domestic and non-domestic rating operates in Northern Ireland.

1 Local government income

1.1 Sources of local government income

Local authorities can obtain income from a broad range of different sources. These can be categorised as follows:

- **Taxes**: legal powers to raise revenues from individuals or businesses, normally on an annual basis, based upon a particular taxbase and a rate of tax;
- **Transfer grants**: money provided by higher tiers of government, either as general grant funding, or 'ring-fenced' for specific purposes. Grants may be distributed to all local authorities based on a calculation of need, or allocated to some authorities through a competitive process;
- **Assigned revenues**: a percentage of revenues from taxes collected by higher tiers of government. The local authority might receive revenue based on the amount collected in its area, or the local 'share' might be redistributed amongst local authorities;
- **Other fees and charges**: powers to charge for specific services provided. In some cases local authorities may only be able to charge a fee that covers the cost of providing the service; in others they may be able to set fees at a commercial level.
- **Commercial income**: local authorities may make their services or their assets available on the open market on a commercial basis. They may also derive income from financial investments;
- **Borrowing**: local authorities may borrow funds either from public sector bodies or commercial lenders, for investment in capital projects.

Local authorities across the world obtain their revenue from some combination of these funding sources. Different states operate different types of limit on local authorities' freedom to raise funds. For instance, in some states, local authorities may be unable to borrow without permission from a higher tier of government; or they may have no tax-raising powers; or they may be require to spend some or all of their transfer grant funding on specific purposes.

1.2 Sources of local authority income in the UK

In the UK, the nature of local revenues from these sources may be summarised as follows:

- **Taxes**: local authorities have powers to raise council tax, business rates, infrastructure-related levies, and transport levies. Revenue from the first two of these may be spent as the local authority wishes, whilst revenue from the third and fourth must be spent on infrastructure and transport matters respectively;
- **Transfer grants**: the UK Government provides a general grant (Revenue Support Grant) to local authorities, together with a number of specific service and policy-related grants. These totalled some £12 billion in 2023-24. The main ringfenced grants are the Public Health Grant, the Dedicated Schools Grant and the Police Grant. These were £3.2 billion, £31 billion and £8.9 billion respectively in 2022-23;[1]
- **Assigned revenues** are not used in England. The Scottish fiscal system includes assigned VAT revenues;
- **Fees and charges:** powers to charge for services exist in hundreds of Acts of Parliament. In some cases, fees and charges can, at a maximum, recover the costs of providing the service. In other cases, the local authority can set them at a commercial level: "while fees and charges can't be used to make a profit, they could provide the opportunity to invest in infrastructure, because all aspects of service provision can be included in cost".[2] Sales, fees and charges raised £11.2 billion for local authorities in England in 2020-21.[3]
- **Commercial income:** During the 2010s, some authorities began to raise substantial income from rental of commercial property, or from wholly-owned trading companies. Local authorities must record income in a trading account when services are provided on a basis other than charging for the costs of providing a service;
- **Parking revenues** and **road user charges**: revenue from these sources must be used for transport-related purposes;
- **Housing rental income** must be recorded separately in an authority's Housing Revenue Account (HRA). Rents on council housing are paid in to

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1 DLUHC, Local Authority Revenue Expenditure and Financing: 2022-23 Budget, England, 21 July 2022, page 12

2 See CIPFA, Fees and charges: a significant income for councils, 2018

3 See some details of sales, fees and charges by service area at DLUHC, Local authority revenue expenditure and financing England: 2020 to 2021 individual local authority data. See the Excel sheet Revenue outturn service expenditure summary.

the HRA, and management and maintenance costs of the housing are met from the HRA;

- **Borrowing:** English local authorities have relative freedom to borrow for investment in capital projects. Further information on capital finance and borrowing can be found in the Library briefing paper Local government in England: capital finance.

1.3 Local taxation systems

Local authorities may have different levels of control over local taxes. The degree of control that a local authority has over a tax system relates to:

- How much of the revenue from the tax it retains: for instance, a local authority may be obliged to pass a percentage of the revenue to central government, or to redistribute funds to other local authorities;
- How much control, if any, it has over the tax rate. A local authority may be unable to change the tax rate (in the case of assigned revenues); or it may be able to change the tax rate within specified bands, or annual rises may be capped;
- How much control the local authority has over the taxbase – the legal provisions regarding what or who is taxed, and whether different tax bands exist;
- How much control the local authority has over tax reliefs and exemptions.

The degree of control over these matters influences how much revenue a local authority can raise from a specific tax. It also governs the degree to which a tax can be described as 'local'. Local authorities in the UK raise a comparatively small amount of their revenue from taxes that are subject to full local control (see the chart on page 9).[4]

UK local authorities raise the bulk of their local tax revenues from taxes on property. This is also a feature of other 'Anglophone' local government systems, such as Australia, New Zealand and the Republic of Ireland. In contrast, many other developed states derive revenues from a broader range of taxes. Some of these may be fully localised taxes; others may constitute assigned revenues; and others may constitute additional rates on national taxes (for instance, income tax or corporation tax). In a study on revenue sources and municipal debt, Shon and Kim state:

> ...revenue diversification helps governments to become more fiscally sustainable. Revenue diversification reduces revenue volatility and collects more sources of revenue through a diversified revenue portfolio. Less revenue

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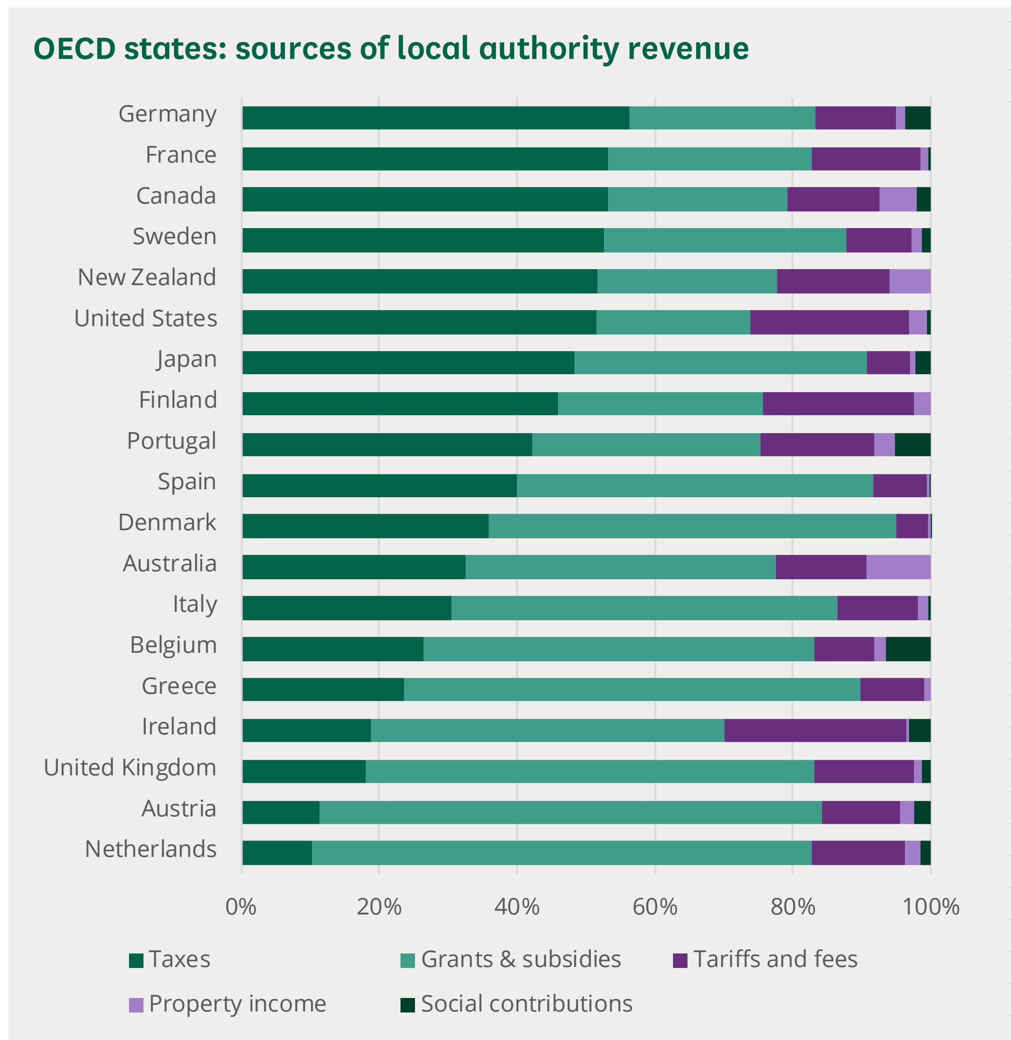
[4] See OECD, Subnational government revenue, 2020, figure 5.7

volatility, but with more revenues, produces more stable revenue yields; thus, it improves revenue adequacy and growth, which develops fiscal sustainability.[5]



Source: OECD, Subnational government revenue, 2018

1.4 Revenues from local taxes

The table below compares the revenues available from the taxes covered by this paper. These are provided for England where figures are available: in other cases, they are provided for smaller areas.

[5] Jongmin Shon & Junghack Kim (2018): The impact of revenue diversification on municipal debts: comparing short-term and long-term debt levels, Local Government Studies 45:2, 241-261, p243

Revenues from local authority taxes

Council tax	£34.58 billion in 2021-22[1]
Business rates	£25.72 billion in 2021-22[2]
Road charging	£452.5 million in London in 2021-22[3]
Workplace Parking Levy	£11 million in Nottingham in 2021-22[4]
Lane rental schemes	£8.9 million gross income in London in 2021-22[5]
Community Infrastructure Levy	£374.35 million in 2021-22[6]
Vehicle Excise Duty	£7 billion in 2021-22[7]
Developer obligations	£5 billion in 2016-17[8]

Sources:
[1] DLUHC, Collection rates and receipts of council tax and non-domestic rates in England, 2021-22
[2] Business rates revenue figure includes rates paid plus Covid-related discounts funded by central government
[3] Source: TfL, Annual Report and Accounts 2021-22, 2022, p139-140
[4] Source: Nottingham City Council, Workplace parking, 2021
[5] Source: Transport for London Lane Rental Scheme monitoring reports
[6] Source: DLUHC, Local Government Financial Statistics England no. 32, 2022
[7] Office for Budget Responsibility, Vehicle excise duty, Mar 2022
[8] MHCLG, A new approach to developer contributions: a report by the CIL review team, February 2017

For taxes which have been proposed but do not exist, estimated figures exist as follows:

Estimates of potential additional local taxes

Transient visitor levy	£420 million (£1 per person per night)
Apprenticeship Levy	£3.2 billion (2021-22)
Income tax	£6.6 billion (1p extra on all bands of income tax)
Value Added Tax	£5.6 billion (1% extra on VAT)

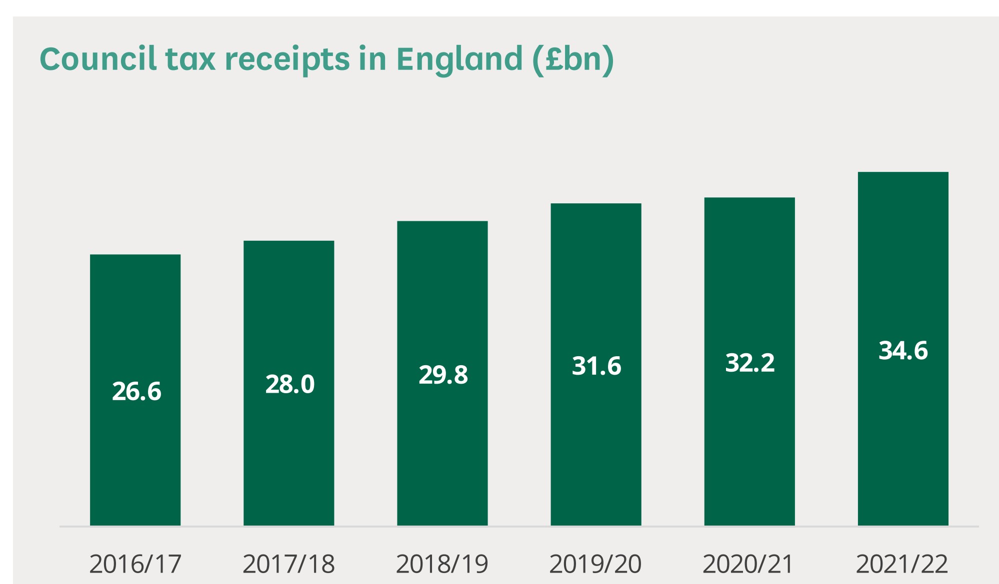
2 Council tax

2.1 Council tax

Council tax is a domestic property tax levied on an annual basis. It is payable by the occupant of the property, related to the property's estimated or notional sale value on 1 April 1991 (1 April 2003 in Wales). It was introduced into England, Wales and Scotland in 1993, replacing the community charge (poll tax), which itself replaced the domestic rating system.

The standard liability on a property is determined by which of the eight bands (A-H) a property is placed in, together with the local rate of council tax. A range of reliefs exist for specific groups of people; and higher charges may be imposed on empty properties in certain scenarios.[6]

In England, council tax raised some £34.6 billion in 2021-22. The tax is collected by billing authorities (district and unitary councils). A number of other types of authority can impose their own share of a council tax bill (a 'precept'): these include county councils, fire and rescue authorities, police and crime commissioners and parish and town councils.



Source: DLUHC, Collection rates and receipts of council tax and non-domestic rates in England, 2021-22

6 See the Library briefing paper Council tax: FAQs for more details, and also the Office for Budget Responsibility guide Council tax

Billing authorities also have powers to offer discretionary discounts to any council taxpayer.[7] A number of authorities have used this power to offer, for instance, 100% discounts for children leaving care and foster carers.

2.2 Council tax: local authorities' control

Billing authorities have little control over the **taxbase** of council tax: that is, defining the types of domestic property that are subject to council tax. Responsibility for maintaining the list of property subject to council tax, and for placing properties in the council tax bands, lies with the Valuation Office Agency (VOA). Local billing authorities do have a formal role in reporting alterations required to the valuation list to the VOA (e.g. adding newly completed properties).

No council tax revaluation has taken place in England and Scotland since 1993, and in Wales since 2005. Thus the council tax bands, in both countries, in which properties have been placed are likely to be significantly out of line with current property values. This is true regarding properties' values relative to one another, and in absolute terms.

Council tax calculations are based on a property in Band D. Bills on properties in other bands are proportionate to Band D bills: so for instance, a band G property in a given local authority pays 15/9 of a Band D bill. The highest band, Band H, pays three times that of the lowest, Band A. This means that the spread of council tax bills is far lower than the spread of property values.[8] As a result, lower income households pay a higher proportion of their income as council tax than higher income households.[9] Some reports have proposed alterations to the band ratios: for instance, the Institute for Fiscal Studies report Revaluation and Reform suggests that the lowest band should pay four-ninths of the standard charge, and the highest band 30 ninths.

For some years, the UK Government's policy has been not to revalue properties in England for council tax purposes.[10] A Parliamentary Question answered in 2014 explained the rationale for this policy:

> Council tax re-banding would require a wholesale council tax revaluation, hitting ordinary home owners with higher taxes, especially those who have undertaken home improvements. Fundamentally, council tax is not a wealth tax; it is a local charge for the use of local services. The current banded system is intentionally designed to avoid the flaws and inequities of both the poll tax and of domestic rates, the former which taxed multiple-adult homes too much,

[7] See section 13A(1)(c) of the Local Government Finance Act 1992. This power is not available in Scotland.

[8] TC Chew, Stephen Glaister, Bridget Rosewell and Jonathan Taylor, TfL Independent Review, 2020, p45

[9] Institute for Fiscal Studies, Revaluation and reform: bringing council tax in England into the 21st century, 2019, p49

[10] In 2022, council tax banding in England and Scotland is still based on property values as at 1 April 1991. Banding in Wales is based on property values as at 1 April 2003.

> and the latter which taxed both family homes and pensioner households too much....[11]

This position has been reiterated more recently:

> **Barry Sheerman**: To ask the Secretary of State for Levelling Up, Housing and Communities, what steps is he taking to reform Council Tax bandings to make them more fair and equitable.
>
> **Kemi Badenoch**: The Government currently has no plans to reform the council tax banding of properties in England. The council tax system incorporates a wide range of discounts and exemptions, and each local authority provides council tax support to reduce bills for people facing financial difficulty.[12]

In law, local authorities may choose the **rate** of council tax that they charge. In practice, local authorities have limited leeway to adjust council tax rates, as they depend substantially on council tax revenue. The council tax bands – and the ratio between the standard bill payable for properties in each band – are fixed by national regulations.[13] Furthermore, since 2012, the UK Government has required confirmatory local referendums for council tax rises above certain limits (or 'excessiveness principles') approved annually each February by the House of Commons. No higher rise than the approved limits has been approved in a referendum since this new system came into place.[14]

Upper tier authorities have also benefited from higher limits to provide an 'adult social care precept' since 2015-16. In 2023-24, a social care precept of 2% will be available to them. If all local authorities with social care responsibilities made maximum use of this limit, this would raise around £550 million in extra funds. The limit for general spending for 2023-24 is expected to be 3%: if all local authorities raised their council tax by the maximum, this would raise just over £1 billion extra.[15]

Most council tax **reliefs** are mandatory and set England-wide by the UK Government. There are 21 categories of exemption from council tax, and 14 categories which may lead to a discount being available. Billing authorities have substantial local discretion on how much discount, if any, they apply to empty properties. They also have the power to levy higher rates of council tax on empty properties in certain circumstances. Further details are available in the Library briefing Council tax: empty properties.

11 HCDeb 19 Jun 2014 c676W. See also, for instance, PQ HC 157521 2021-22, 21 April 2022; PQ HC 131923 2017-19, 19 March 2018

12 PQ HC 106627 2021-22, 18 Jan 2022

13 This means that, for instance, in any given authority a standard band A bill is six-ninths of a band D bill; a standard band F bill is thirteen-ninths of a band D bill.

14 For further information see the Library's 2021 briefing paper Council tax: local referendums.

15 Source: House of Commons Library calculations.

2.3 Proposals for change

A number of reports have been published in recent years that make proposals for reforming or replacing council tax. Examples include:

- A campaign for a 'proportional property tax' by www.fairershare.org.uk
- A report from the IPPR in 2021 entitled Pulling Down the Ladder;
- A report published by Bright Blue, a think-tank associated with the left of the Conservative Party, in 2021. This was entitled Home Truths: options for reforming residential property taxes in England. It was authored by Professors Paul Cheshire and Christian Hilber from the London School of Economics;
- the February 2021 report A Property Tax for Scotland, from the Scottish think-tank Common Weal;
- the Institute for Fiscal Studies' 2019 publication Revaluation and reform: bringing council tax in England into the 21st century;
- Home Affairs: options for reforming property taxation, published in 2018 by the Resolution Foundation;
- the Joseph Rowntree Foundation's 2017 report After the council tax;
- The (Scottish) Commission on Local Tax Reform's 2016 report Just Change: A New Approach to Local Taxation;
- The Institute for Fiscal Studies's 2011 report Tax by Design (also known as the Mirrlees Review). This report proposed the replacement of council tax by a 'housing services tax', alongside the abolition of stamp duty.

Most of these reports propose a council tax revaluation and/or a broadening of the banding system, in order to reflect the spread of property values more accurately. Some of the reports include proposals for reform of other taxes, such as infrastructure levies, stamp duty land tax, or land value capture. Many of them model the effects of their proposals. In most cases, their models are based on the assumption that council tax (and any other taxes discussed) will continue to raise the same amount of revenue, under a reformed system, as it does currently.

Wales: council tax reform

The Welsh Government's Co-operation Agreement with Plaid Cymru, published in December 2021, included a commitment to reform council tax to make it "fairer and more progressive".[16] The Welsh Government published a

[16] Welsh Government, Co-operation agreement: full policy programme, December 2021, paragraph 9

consultation entitled A Fairer Council Tax in July 2022. This consultation proposed a full revaluation of council tax in Wales to take effect in 2025, plus provision for regular future revaluations. A revaluation would be structured to ensure that the same amount of total council tax revenue would be raised after it had taken place.[17] The Welsh Government would also adjust Revenue Support Grant allocations to ensure that it took account of changes in local authority council tax revenues resulting from a revaluation.[18]

The consultation also asked for views on the following issues, but did not express any current preferences on them:

- Whether additional council tax bands should be added below band A and/or above band I.[19]
- Enabling the VOA to alter property bandings when properties are improved: at present this can only be done when an improved property is sold;
- Whether the Welsh Government, or local authorities, should have greater flexibility over discounts and exemptions, including the single person discount;
- Whether changes should be made to the Welsh council tax reduction scheme.[20]

The consultation closed on 4 October 2022, and no response has been published at the time of writing.

2.4 'Proportional' property taxation

An alternative form of property taxation to the banding system used by council tax would be to base standard liability on a percentage of the property's sale value, paid annually. This was among the options modelled in the IFS's 2019 report Revaluation and reform. It is also akin to the domestic rate system that operates in Northern Ireland (and to the pre-1990 domestic rating system in Great Britain).

A campaign group called Fairershare made a similar proposal for a 'proportional property tax'. This would replace council tax, stamp duty and

[17] Welsh Government, A fairer council tax, 2022, p11. See also the Institute for Fiscal Studies report Revaluation and reform of council tax in Wales, 2020

[18] As above, p12

[19] As above, p11

[20] The Welsh Government operates a national council tax reduction scheme in Wales, whereas in England billing authorities may design their own scheme within certain parameters: see the Library briefing Council tax reduction schemes

the 'bedroom tax'[21] with an annual tax based on a percentage of the capital value of a property. The proposal in their 'manifesto' document has the following features:

- A property tax of 0.48% of the value of a property would be payable. A double rate of 0.96% would be charged on "second, empty, and non-resident owned homes".[22] These amounts are designed to raise the same total amount that is currently raised from council tax and stamp duty;
- Any increase in tax payable would be capped at £100 per month from the point at which the system changed over. This cap would disappear once the property was sold;[23]
- All properties would be revalued annually. The tax would be payable on the property's average value over the previous three years;
- The tax would be payable by the property owner. Individuals who struggled to pay the tax would be able to 'roll up' the liability against the value of the property. The unpaid liability could be paid at a later date, potentially when the property is sold;
- Undeveloped plots that have received planning permission would be subject to the tax.[24] This is a form of 'vacant land tax' (see section 2.5 below);
- Stamp duty would be abolished on principal residences, but retained for second homes and non-resident buyers.
- The single person discount available to council tax payers would also be abolished.[25]

Fairershare claim that 76% of households would pay less under the proposals.[26] This figure is broadly in line with the results shown by modelling in the IFS report Revaluation and Reform.[27] Fairershare's manifesto raises the possibility of local authorities adjusting the percentage rate.

Because more valuable properties would incur a greater liability under this proposal, local authorities in wealthier parts of England would obtain more revenue, and those in more deprived areas would obtain less. To counter this effect, Fairershare's manifesto also raises the possibility of some of the tax's revenue being allocated to central government, to be redistributed between authorities.[28]

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21 This is a reference to the Government's policy of reducing housing benefit entitlements for individuals deemed to be living in accommodation too big for their needs: see the Library briefing paper Impact of the under-occupation deduction from Housing Benefit (social rented housing) for additional details.

22 Fairer Share Manifesto, 2020, p11

23 Ibid.

24 Ibid.

25 Ibid.

26 Ibid., p15

27 Institute for Fiscal Studies, Revaluation and reform: bringing council tax in England into the 21st century, 2019, p63-4

28 Ibid., p14

2.5 Taxation of second homes

Billing authorities in England have discretionary powers to adjust the level of council tax liability on empty properties. They may offer a discount of up to 50% for up to 6 months, but they may choose to offer no discount at all on empty properties. The owner of the property is liable to pay.

Billing authorities may charge additional amounts of council tax on properties that are 'unoccupied and substantially unfurnished'. They may charge up to 200% of the normal liability after a property has been unoccupied and substantially unfurnished for two years; 300% after five years; and 400% after ten years. Further information is available in the Library briefing paper Council tax: empty properties. The Levelling Up and Regeneration Bill currently contains provisions that would change the two-year period to one year.[29]

In Wales, billing authorities may charge up to 200% council tax on second homes – that is, properties that are occupied and furnished. The Levelling Up and Regeneration Bill also contains powers to introduce an equivalent power for English billing authorities.[30]

2.6 Vacant land tax

A 'vacant land tax' refers to the aim of taxing land on which planning permission has been given for new build housing or commercial property, which is subsequently not built. Vacant land taxes are sometimes proposed as a means of discouraging 'land banking'.

The Welsh Government began investigating the possibility of a vacant land tax in 2018. This work began following the Wales Act 2017, which devolved tax-raising powers to the then National Assembly, including a power to propose new Wales-only taxes. Any new Wales-only taxes are subject to agreement by HM Treasury.

The Welsh Government chose a vacant land tax for further investigation in 2018.[31] The shortlist described the plans as follows:

> Wales needs more housing. Sometimes, land identified as suitable for building is not built on, or is not built on as quickly as needed. This idea will explore whether a new tax to increase the cost of holding vacant land could encourage the building of new homes and increase commercial development.

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29 See the Library briefing Levelling-Up and Regeneration Bill 2022/23: Progress of the Bill, 2022, p33

30 As above

31 University of Cardiff, Vacant Land Tax, 18 Oct 2018

> We will work with people who own or develop land, house builders, local planning authorities, housing associations, and the third sector to ensure the new tax would help build the houses and commercial buildings we need.[32]

The Welsh Government made a formal request for devolved powers to establish a vacant land tax in March 2020. In September 2020, the Welsh Government stated that further information was being requested by the Treasury.[33] Rebecca Evans, the Welsh finance minister, stated in evidence to the Senedd's finance committee in December 2021 that the Treasury was still requesting additional information.[34] No further developments have been reported.

No information is available on the Welsh Government's preferred approach to the vacant land tax. The Republic of Ireland charges a 'vacant sites levy' on land that is suitable for housing but has not been proposed for development, at a rate of 7% of the site's value per year. The land that is subject to the levy must be on the local authority's 'vacant sites register' and must have been unused for 12 months or more. This levy is to be replaced from 2024 by a Zoned Land Tax, at 3% of the value of undeveloped sites that are serviced and zoned for residential development.[35]

In 2022, the Local Government Association proposed that developers should be charged full council tax for all unbuilt properties from the point when planning permission to build them expires.[36] In 2021, the LUHC Select Committee recommended that full council tax should be charged on uncompleted units within developments from three years after the grant of planning permission:

> The Government should set a limit of 18 months following discharge of planning conditions for work to commence on site. If work has not progressed to the satisfaction of the Local Planning Authority then the planning permission may be revoked. An allowance of a further 18 months should be allowed for development to be completed, after which the local authority should be able, taking account of the size and complexity of the site, and infrastructure to be completed by other parties, to levy full council tax for each housing unit which has not been completed.[37]

The Government response to the report did not address this recommendation.[38]

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32 Welsh Government, Developing new Welsh taxes, 28 Jun 2018

33 Welsh Government, Written Statement: Update on Welsh Government's formal request to UK Government for devolution of further tax competence to Senedd Cymru, 8 Sep 2020

34 Senedd Official Record, Finance Committee, 22 Dec 2021

35 See Citizens Information, Vacant sites (citizensinformation.ie) [accessed 15 Dec 2022)

36 LGA / WPI Economics, Reforming revenues: options for the future financing of local government, January 2022, p44

37 Levelling Up, Housing and Communities Select Committee, The future of the planning system in England, HC-38 2021-22, 10 Jun 2021, paragraph 129

38 DLUHC, Government response to the Levelling Up, Housing and Communities Select Committee report on The Future of the Planning System in England, 6 Jun 2022

3 Business rates / commercial property taxes

3.1 Introduction

Business rates (non-domestic rating) is a recurrent tax on the occupants of non-domestic property. The basic liability is obtained by multiplying a property's rateable value by an England-wide multiplier.[39] The current system was introduced in 1990 in England, Scotland and Wales. The previous system permitted the multiplier to be set by local authorities.

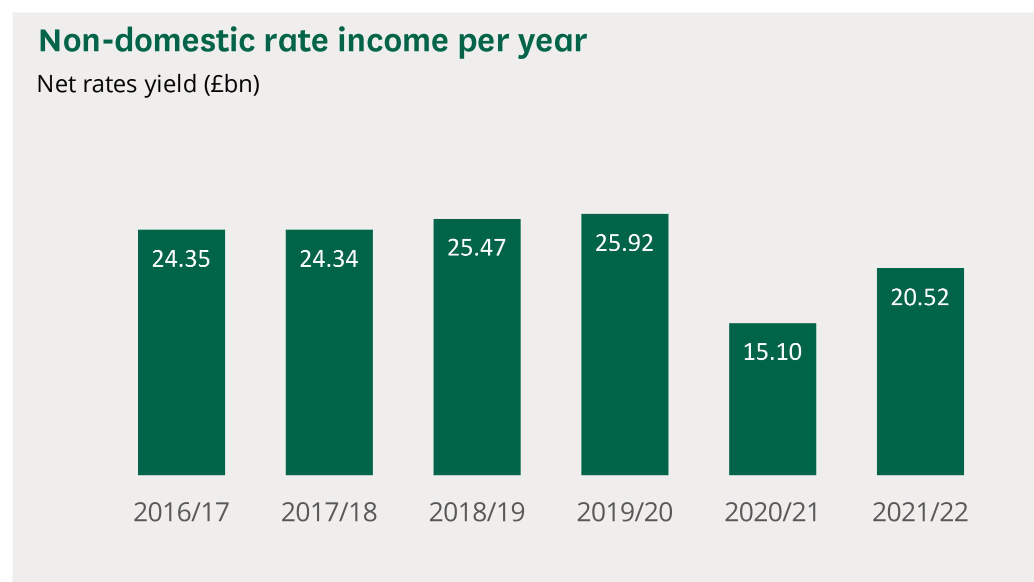
Business rates are collected by billing authorities (district councils or unitary authorities). In most areas, 50% of revenue is passed to central government, whilst a 50% 'local share' is distributed amongst local authorities. Up to 50% of growth is retained locally (see section 3.2 below). In some areas these percentages are different (see section 3.3 below).

Legislation requires a number of mandatory reliefs to be offered on business rate bills. Billing authorities decide whether a property is eligible for one or more reliefs. The UK Government has also provided funding to allow billing authorities to provide a number of short-term reliefs for certain sectors (e.g. retail, hospitality, pubs).

Gross business rates liability in 2021/22 was £30.8 billion across England. Actual revenues in 2021/22 were some £20.5 billion. Of this £10.3 billion gap, approximately £5.2 billion was due to discretionary reliefs related to the Covid-19 pandemic, for which local authorities were compensated by the Government. The remainder of the gap was due to mandatory reliefs.[40] Local authorities would therefore have raised some £25.7 billion in 2021/22 without the impact of the Covid-19 pandemic.

[39] The City of London also levies a separate additional local multiplier (currently 0.012) which provide additional funding for the Police Service, security, resilience and contingency planning: see City of London, Non-domestic rates explanatory notes

[40] These figures are drawn from provisional data published by DLUHC, National non-domestic rates collected by local authorities in England 2021 to 2022, 29 Sep 2022



Notes: In most areas, 50% of rate retention income goes to local authorities and 50% to central government. The large rises in reliefs in 2020-21 and 2021-22 are due to the Covid-19 pandemic.

Source: DLUHC, Local government financial statistics 2021-22

Local authorities have no control over the business rates **tax base**, or over the valuation of properties for business rates purposes. They also cannot alter the tax **rate** in the form of the national multiplier. County and unitary councils, the Greater London Authority, and many combined authorities can establish a 'business rate supplement' – a supplementary multiplier subject to a confirmatory referendum of rate-paying businesses.[41] As with council tax, a number of mandatory **reliefs** are set by the UK Government for England (and by the devolved governments for Scotland, Wales and Northern Ireland). Billing authorities have powers to grant additional discretionary relief.[42]

3.2 Local retention of business rates

From 2013, local authorities have retained part of the growth in business rates revenue in their area. This is known as the Business Rate Retention Scheme (BRRS). It is explained in detail in the Library briefing Reviewing and reforming local government finance.

In short, the BRRS enables local authorities in most areas to retain up to 50% of additional business rates revenue against a 2013 baseline.[43] The BRRS is

[41] Only one supplement exists in England: in Greater London, all businesses pay 2p in the pound extra, which has been used to part-finance Crossrail. This supplement was brought in before the requirement for a confirmatory referendum was established.

[42] See section 47 of the Local Government Finance Act 1988. This power was used to establish relief schemes operated during the Covid-19 pandemic between 2020 and 2022.

[43] The baseline has been uprated in real terms since 2013, to take account of inflation.

intended to incentivise councils to pursue local economic growth, and to reward growth via additional rate revenue.

Government proposals have been made to increase the local share of rate revenue to 100% (2015) and 75% (2018). This policy has not been pursued at the time of writing, in part due to the postponement of the Government's Fair Funding Review.[44] A small number of areas (Greater Manchester, Liverpool City Region, West Midlands, West of England and Cornwall) retain 100% of business rates revenue, whilst also foregoing some grant revenue. London government retains 67% of rate revenue.[45]

A higher level of rate retention will provide greater gains for authorities that increase their rate revenue. However, it also leads to greater financial exposure for the authority if rate revenue falls: for instance, if a major business ceases to operate, or the business successfully challenges its rateable value in court, leading to a reduction in its bill.

3.3 Proposals for change

A small number of reports have advocated major change to the business rates system in the late 2010s and early 2020s. The proposals include basing valuations purely on land values and disregarding buildings (see also section 7.5 below on land value taxation); imposing tax on property owners instead of occupants; and reforming the range of reliefs currently available for business rates. Reports include:

- Demos, Time for Change; Abolish Business Rates and introduce a landlord levy, July 2021;
- A blog published by the New Economics Foundation in 2019, Funding local government with a land value tax;
- Adam Corlett, Andrew Dixon, Dominic Humphrey & Max von Thun, Replacing business rates: taxing land, not investment, September 2018. This report was produced by the Liberal Democrat Business and Entrepreneurs Network.

44 For more details of the Fair Funding Review, see the Library briefing paper Reviewing and reforming local government finance.

45 See DLUHC, Authorities with increased business rates retention arrangements: final local government finance settlement 2022 to 2023, 7 Feb 2022

Business rates reviews and online sales taxes

The Government undertook reviews of business rates in 2014-16 and 2019-21. These reviews focused on specific concerns expressed by businesses, and did not address the role of business rates in local government finance.[46]

Following the 2019-21 'fundamental review of business rates', the Government announced plans to move from five-yearly to three-yearly revaluations, with effect after the revaluation that will take effect in 2023; to increase the transparency of the valuation process; and to consult on introducing an online sales tax.[47]

Businesses have expressed the view that the business rates system disadvantages the traditional retail sector, which faces competition from online retail.[48] This issue featured in much of the evidence provided to the HCLG Committee's 2019 report High streets and town centres in 2030, and to the Treasury Select Committee's 2019 report The impact of business rates on business.[49]

The fundamental case for an online sales tax is described in evidence provided to the Treasury Select Committee by the Institute for Revenues, Ratings and Valuation (IRRV):

> An Internet transaction tax or a delivery tax is worthy of detailed consideration. Bricks and mortar businesses, particularly in the retail sector have been struggling to cope with the increase in alternative internet-based retail businesses; they have to compete on price with those internet-based businesses, even though those on-line businesses generally face significantly lower fixed costs.[50]

The Levelling Up, Housing and Communities Committee recommended a Government consultation on an online sales tax in its December 2021 report on supporting high streets:

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46 For details of the 2014-16 reviews, see DCLG, Administration of Business Rates Review: Interim Findings, December 2014; DCLG, Summary of responses to interim findings, July 2015. No final report was published.

47 See DLUHC, Business rates review: technical consultation, Nov 2021. The May 2022 Queen's Speech announced that a non-domestic rating bill would be introduced into Parliament in the 2022-23 session, to implement many of these proposals.

48 See, for instance, WPI Economics, Councils and e-commerce: the why, what and how of an e-commerce levy, LGA, 2020, p16; Treasury Select Committee, The impact of business rates on business, HC 222 2019, 31 Oct 2019, pp42-3; Bill Grimsey, The Grimsey Review 2: The Vanishing High Street, 2018, page 8; Benedict Dellot and Fabian Wallace-Stephens, The entrepreneurial audit, 2017, pages 19-20; Centre for Retail Research, Future of the high street, 2018; British Retail Consortium, Over fifty retailers demand Chancellor fix business taxation, 13 August 2019

49 Treasury Select Committee, The impact of business rates on business, HC-222 2019, 31 Oct 2019; Housing, Communities and Local Government Committee, High streets and town centres in 2030, HC-1010, 21 February 2019

50 See Treasury Select Committee, The impact of business rates on business, written evidence IBR0109, April 2019. The IRRV is the professional association for property valuers who, amongst other things, produce business rates valuations.

> The Government should provide clear timescales for the consultation. Since the future of retail is multichannel due to changing consumer habits, it is particularly important that an online sales tax does not penalise retailers that have both an online and bricks-and-mortar presence. We look forward to further detail on the scope of the consultation, which we recommend must consider:
>
> - the impact on multichannel retailers;
> - the scope of the tax, including which sectors it will be levied on (such as groceries and holidays) and whether it will apply to Click and Collect;
> - how revenue will offset business rates for retailers in a meaningful way and on a permanent basis;
> - how the tax may sit alongside work by the OECD to develop a consensus solution to the tax challenges of digitalisation; and
> - the impact on local authority income.[51]

Subsequent to its 2020-21 fundamental review of business rates, the Government consulted in February 2022 on proposals to introduce an online sales tax.[52] The consultation did not express a preference for setting tax rates locally, or indicate whether the Government envisaged an online sales tax forming part of the business rates system or being a separate system. The consultation identified the following key issues:

- What type of transactions would constitute 'online sales'. The consultation suggested that "the kind of properties typically used by different models would be a central determining factor in deciding taxable transactions", as the purpose of the consultation was to relieve the business rates burden on retail properties.[53] However, a different outcome would result, for instance, from using the OECD definition of e-commerce to define an 'online sale': "the sale or purchase of goods or services, conducted over computer networks by methods specifically designed for the purpose of receiving or placing of orders".[54]
- Whether an online sales tax should cover goods – given the focus on the retail sector – or goods and services;
- What provision should be made for click-and-collect services, which depend upon a physical location for the customer to collect the product;

51 Levelling Up, Housing and Communities Committee, Supporting our high streets after Covid-19, HC 37, 10 December 2021 para 125, para 130

52 HM Treasury, Online sales tax: assessing an option to help rebalance taxation of the retail sector, 25 Feb 2022

53 Ibid., p9

54 Ibid,. p10

- Who should be liable for the tax: for instance, where an online marketplace is used, whether the liability falls on the marketplace or the individual business or seller;
- Whether to base the tax on online sales revenues, or a measure of the number of online transactions, or deliveries.

The Government estimated that an online sales tax would raise in the order of £1 billion annually. The intention would be for this sum to be used to offset business rate liability for in-store retail properties.[55]

The Government announced in the 2022 Autumn Statement that it had decided not to introduce an online sales tax. A formal response to consultation is still awaited at the time of writing.[56]

The Local Government Association's response to the consultation suggested that such a tax should be levied in scenarios where an online sale replaces a physical one. It also suggested that public services, and business-to-business transactions, should not be liable for the tax;[57] and that it should provide a new source of income for councils rather than replacing a portion of business rate revenue.

55 Ibid., p8
56 HM Treasury, Autumn Statement 2022, 2022, p54
57 LGA, Online sales tax: Assessing an option to help rebalance taxation of the retail sector, May 2022

4 Transport levies

UK local authorities have a number of powers to set levies related to transport. In each case, the local authority has considerable control over the tax **rate** and **reliefs**. For road charging, local authorities have considerable control over the **taxbase**: they can specify the types of road, types of vehicle, and times of charges that can apply. The taxbase of workplace parking levies and lane rentals is more fixed in nature. In each case, the revenue from the levy is hypothecated – that is, it must be spent on transport-related matters.

4.1 Road charging

Local authorities in England and Wales may implement road charging schemes, via provisions in the Transport Act 2000. The 2000 Act is permissive, allowing local authorities to decide on the geographical coverage of a scheme, which motor vehicles should be covered, and the levels of charges. Revenue from road charging schemes must be spent on facilitating the local transport plan. More information is available in the Library briefing paper Local road charges (2018).

Transport for London operates a number of road charging schemes via the Greater London Authority Act 1999, which contains provisions largely equivalent to those in the Transport Act 2000:

- The congestion charge. This was established in February 2002, covering an area in Central London. The initial charge was £5 per day to drive within the zone between 7.30am and 6.30pm: as of January 2022 it is £15, to drive between 7am and 10pm. The zone was expanded to the west between February 2007 and December 2010;
- An Ultra-Low Emissions Zone (ULEZ). This was established in April 2019, covering the same area as the congestion charge. The ULEZ was extended to the area inside (but not including) the North and South Circular Roads on 25 October 2021. A consultation to extend it to the Greater London boundary was launched in May 2022. Cars that do not comply with the ULEZ emissions standards must pay £12.50 per day to drive within the ULEZ. It operates 24 hours a day, every day except Christmas Day. Non-compliant vehicles that drive within the congestion charge zone would have to pay both the congestion charge and ULEZ;[58]
- A Low Emissions Zone for vans, lorries, buses, coaches and specialist diesel vehicles. This covers the whole of Greater London and operates 24

[58] A £10 Emissions Surcharge (dubbed the 'T-charge') was applied to the most polluting vehicles entering central London between 23 October 2017 and the introduction of the ULEZ.

hours a day every day. Non-compliant vehicles are charged £100 or £300 per day to drive within the LEZ;[59]

TfL's net income from congestion charging in 2021-22 was £307.3 million, and net income from the ULEZ and LEZ totalled £145.2 million, making a total of £452.5 million.[60]

In the early 2020s a number of local authorities introduced 'clean air zones' (also known as 'low emission zones'). These included Birmingham City Council; Bristol City Council;[61] Bradford City Council; and Portsmouth City Council. The Local Government Chronicle reported that the Birmingham zone raised £33 million in levies and fines in its first nine months.[62] More information is available in the Library briefing paper Roads and Vehicle regulation FAQs.

A number of local authorities charge tolls on specific roads. For instance, the Liverpool City Region Combined Authority controls tolls on the Mersey Tunnel. Transport for London will charge tolls on the new Silvertown Tunnel and, when the Silvertown Tunnel opens, on the neighbouring Blackwall Tunnel also.[63]

4.2 Workplace Parking Levy

The Transport Act 2000 also provides local authorities with the power to establish a workplace parking levy. This is a charge on the provision of parking spaces at a place of work. In effect, the owner of a premises that provides parking spaces must apply to the charging authority for a licence to provide a fixed number of parking spaces, and the licence is determined by the number of spaces provided. The authority must grant the licence for the number of spaces requested: it cannot insist on a smaller number.

Proceeds from workplace parking levies must be spent in connection with the authority's Local Transport Plan. A workplace parking levy scheme must be approved by the Secretary of State before it commences.

The only workplace parking levy in operation in the UK is managed by Nottingham City Council. This was introduced in 2012. As of 2021, Nottingham charges employers with 11 parking spaces or more £458 per year. The levy has produced revenues of approximately £10 million per year since 2012, and the revenue is used to support public transport in Nottingham.[64] Leicester City Council consulted on introducing a WPL in early 2022.

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[59] TfL, Air Quality consultation stage 3b, February 2018

[60] TfL, Annual Report and Accounts 2021-22, 2022, p139-140

[61] See Bristol City Council, Clean Air Zone, 2022

[62] Jessica Hill, "Revealed: City raises £33m from clean air zone", Local Government Chronicle, 27 Jul 2022

[63] Transport for London, Tunnelling underway for new river crossing at Silvertown, 7 Sep 2022

[64] Nottingham City Council, Workplace parking, 2021

4.3 Lane rental schemes

Section 74A of the New Roads and Street Works Act 1991, as amended, permits highway authorities (county and unitary councils) to establish lane rental schemes. These are charges on street works undertakers, levied on each day that they occupy a highway in order to undertake works. The purpose of lane rental schemes is to incentivise street works undertakers to co-ordinate works, minimise occupation during peak hours, and minimise the need to return to the site - and therefore minimise the charges that they pay.

Each scheme is the subject of separate regulations passed by Parliament, which approve the charging scheme that the highway authority has submitted to the Secretary of State. The maximum amount that may be charged is £2,500 per day.[65]

At the time of writing, lane rental schemes exist in London, Surrey and Kent. East Sussex and West Sussex have also been reported as developing plans for schemes. Government guidance published in 2021 (PDF) provides guidance for highway authorities considering the establishment of a lane rental scheme. The Government also published an evaluation and consultation document in 2017 entitled Road works: the future of lane rental (PDF).

Transport for London has operated its lane rental scheme since 2012. The gross income of the scheme is in the low millions of pounds per year. Kent's rental scheme has operated since 2013 and has generated on average £1-2 million per year. The funds arising from the charges must be spent on "purposes intended to reduce the disruption and other adverse effects caused by street works". In Kent and London, most surplus funding is recycled into local transport schemes.[66]

[65] See the Street Works (Charges for Occupation of the Highway) (England) Regulations 2012, regulation 4

[66] See the annual Transport for London Lane Rental Scheme monitoring reports; also Kent County Council, Kent Lane Rental Scheme

5 Land Value Capture

5.1 The concept of land value capture

The term 'land value capture' refers to taxing the increase in value of land in two related scenarios. One is that public sector investment in physical infrastructure in a locality – often transport infrastructure – can lead to rises in land values nearby. This represents a financial windfall for landowners, as their land has risen in value, not because of their actions, but because of government investment. The other is that the value of a piece of land may be increased by new development of that land, facilitated by planning permission (planning gain). For instance, a site may receive planning permission to build higher density residential property than currently exists. In both cases, government involvement is critical to the increase in value.

The purpose of a system of land value capture is to pay for infrastructure investments by using some of the value that is 'capitalised' into the price of land as a result of the new infrastructure. The OECD's 'OECD-Lincoln taxonomy' defines five different approaches to land value capture:

- **Infrastructure levy**: taxes or fees levied on landowners possessing land that has gained value due to government-initiated infrastructure development
- **Developer obligations**: cash or in-kind contributions that defray costs for additional infrastructure or services that need to be provided due to private development
- **Charges for development rights**: cash or in-kind contributions payable in exchange for development rights or development potential above a set density baseline
- **Land readjustment**: the practice of pooling fragmented land parcels for joint development, with owners transferring a portion of their land for public use
- **Strategic land management**: the practice of governments actively buying, developing, selling and leasing land to advance public needs and recoup value increments borne through public action[67]

The first two of these – infrastructure levies and developer obligations – are currently in use for new developments in the UK. Charges for development

[67] OECD / Lincoln Institute of Land Policy, Global compendium of land value capture policies, OECD Publishing, 2022. The term 'betterment levy' is also used to describe the concept of an infrastructure levy.

rights are not used in the UK: these "require clear, predefined land-use and zoning regulations that set baseline and maximum densities".[68] Land readjustment is not used: this involves pooling land for public infrastructure, but ownership is retained by the original landowners, who then pay a levy based on the rise in land value.

In principle, the concept of land value capture overlaps with the functioning of recurring property taxes, such as council tax and business rates – and it would overlap with a land value tax if one were introduced (see section 7.5). These taxes also respond to an extent to changes in land value and, as such, enable taxation authorities to capture some of the increases in value.

The term 'land value capture' is typically used to refer to taxing changes in land and property value. It is not the same as land value taxation (see section 7.5 below). It is distinct from property taxes such as council tax and business rates, where the liability for tax is based on the value of land and property itself.

Land value capture is not necessarily appropriate in all development scenarios. It is most effective where development causes land values to rise significantly. Where land values rise minimally or not at all, there is little value to be captured, or put another way, a minimal taxbase.[69]

5.2 Practice in the UK

UK local authorities currently have no means of capturing increases in land value in a way that relates to rises in land value within a geography of their choice. Increases in value arising from site-specific development can be subject to forms of taxation or levy:

- **Infrastructure levies**. The Community Infrastructure Levy (CIL) may be charged by planning authorities on new developments, at a rate per square metre. The Mayor of London also applies a Mayoral CIL (MCIL) to fund Crossrail (the Elizabeth Line) which is payable in addition to any local CIL charged by London boroughs. Local authorities have substantial discretion over the **rate**, **taxbase**, and **reliefs** operated by a CIL, though some classes of property are exempt under England-wide provisions. The new Infrastructure Levy (IL), to be introduced by the Levelling Up and Regeneration Bill 2022-23, is expected at the time of writing to be based on the increase in land value arising from a development. The government has committed to retaining the existing MCIL arrangements in London until the GLA's Crossrail debt is repaid.

- **Planning obligations** ('section 106 agreements'). These require developers to pay additional sums to local authorities, in order to

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[68] As above

[69] Transport for London, Land Value Capture [PDF], 2017, p11

finance public amenities (for instance, health facilities, roads or schools) to accompany their developments.

In addition, a local authority can impose a supplementary business rate throughout its area. One supplement is in existence: an additional 2p business rate, on all properties with a rateable value over £70,000, has been used to part-fund the Crossrail scheme in London since 2010.[70] A supplementary rate can only be imposed throughout a local authority area, not in specific parts of it. It must be approved by a referendum of ratepayers (both by number and by rateable value).

Two further methods have been proposed in recent years to enable local authorities to obtain greater value from making land available for development:

- **Abolishing hope value.** Where a local authority has identified land in its local plan, and it then purchases that land compulsorily, legislation requires the authority to pay 'hope value' – that is, a price based on the likely value of the land once development has taken place. As such, the rise in land value is entirely 'captured' by the original owner.[71]

- **Development rights auction**. Transport for London reported on a potential trial of a 'development rights auction model' (DRAM) in 2018, concluding that it would not generate substantial revenue.[72]

Revenue from land value capture

In practice, revenue from existing forms of LVC is hypothecated, either to be used for 'infrastructure', or to be used in regard to the site in respect of which it is raised. As such, it is not a potential free source of additional general revenue for local authorities. Revenues from the Community Infrastructure Levy must be spent on infrastructure. 'Infrastructure' is defined in s216 of the Planning Act 2008: it includes roads, schools, medical facilities, flood defences, sporting facilities and open spaces. Schedule 11 of the Levelling-Up and Regeneration Bill 2022-23 would make similar provisions for the new Infrastructure Levy, and would also include affordable housing, facilities for emergency services, and facilities to mitigate climate change within the definition of infrastructure.

Similarly, in most cases, section 106 agreements do not generate income for the relevant local authority that can be spent on public services. They may provide for facilities to be built that the local authority does not then have to build itself, potentially saving the local authority money. Research suggests that direct cash payments, from the developer to the local authority, are

[70] See Greater London Authority, Crossrail Business Rates Supplement Q&A, February 2010, p.29. Crossrail is also being funded via section 106 provisions and infrastructure levy funding (see below). These two revenue streams are expected to be required to be used to finance and repay the GLA's Crossrail related debt until the early 2040s.

[71] For instance, see HCLG Committee, Land Value Capture, HC-766 2017-19, 2018, p41

[72] TfL, Development Rights Auction Model, 2018

made only in a minority of section 106 agreements.[73] Where the local authority does obtain direct payments, these are treated as part of the capital account and cannot be spent directly on supporting public services.

CIL receipts and planning obligation receipts are not at present subject to any redistribution between local authorities.

5.3 Approaches to land value capture

Planning obligations

Planning obligations - sometimes known as section 106 agreements - are legally enforceable obligations made under section 106 of the Town and Country Planning Act 1990. They are negotiated and made between a developer and the Local Planning Authority (LPA), to meet the concerns the LPA may have about meeting the cost of providing new infrastructure for an area. A planning obligation may only constitute a reason for granting planning permission if it is:

- necessary to make the development acceptable in planning terms;
- directly related to the development; and
- fairly and reasonably related in scale and kind to the development.

Planning obligations may take the form of cash payments and/or in-kind contributions from a developer. For instance, the developer might build infrastructure, such as roads or community facilities, alongside the development. Alternatively, a planning obligation might require a certain quantity of affordable housing to be built. The planning obligation attaches to the land to which it relates, not to the developer themselves.

A report produced for MHCLG in 2018 stated that, in the 2016/17 financial year, the total value of planning obligations in England was some £5 billion, of which some £4 billion related to affordable housing. In that year, a further £945 million of CIL was levied.[74] By value, 72% of planning obligation payments occurred in London, the South-East, and East of England regions.

Planning obligations differ from infrastructure levies (see below) in that they are used to make an individual planning application acceptable in planning terms, whereas levies are intended to support the development of the area. Planning obligations therefore are not intended to operate as a form of land

73 Lord et al., The incidence, value and delivery of planning obligations and Community Infrastructure Levy in England in 2016-17, MHCLG, 2018, p35

74 Lord et al., The incidence, value and delivery of planning obligations and Community Infrastructure Levy in England in 2016-17, MHCLG, 2018, p35

value capture. However, as they amount to developer profits being used for public purposes, their practical effect has affinities with land value capture.

Community Infrastructure Levy

The Community Infrastructure Levy (CIL) is a charge per square metre payable on new development. Local planning authorities (district and unitary councils, National Park Authorities, and the Mayor of London) may establish a 'charging schedule'. The charging schedule can set different CIL rates for different geographical areas, different types of development, or different scales of development. The CIL is payable by the landowner, but others involved in a development may take on the liability to pay. The legislation permitting CIL to be charged is part 11 of the Planning Act 2008. Local authorities have had the power to charge a CIL from April 2010.

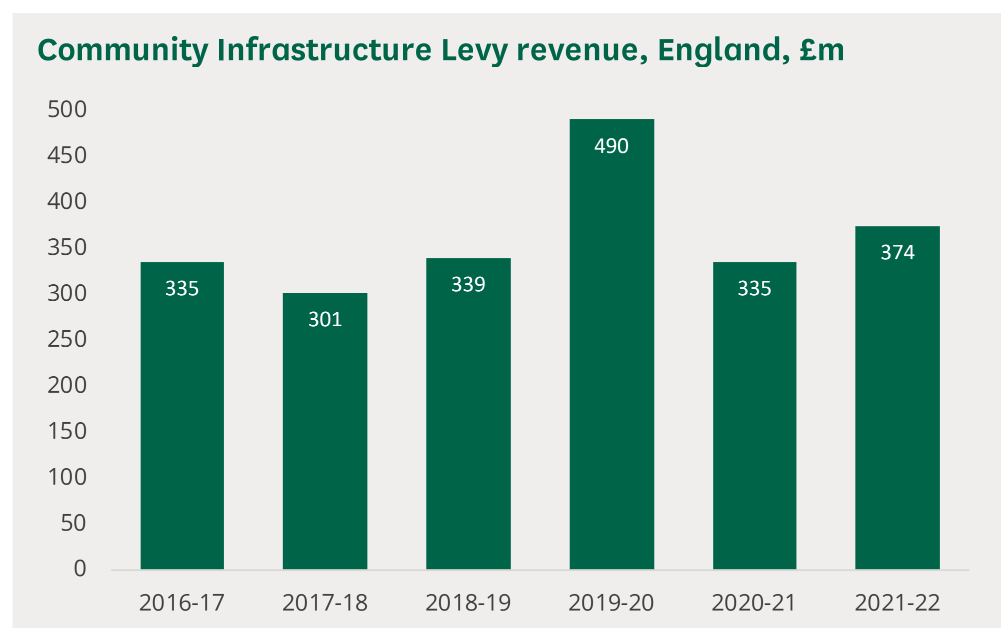
The development of the charging schedule and the rates within it are subject to an independent public examination, as are local development plans themselves.[75] More information is available in the Library briefing paper Community Infrastructure Levy.

Certain classes of building are exempt from CIL. This includes developments under 100 square metres; residential extensions and annexes; social housing; and charitable developments. Charging schedules can also specify other classes of building that are subject to a nil rate. Infrastructure that is not buildings is not subject to CIL. CIL revenues may be used to fund:

> ....transport, flood defences, schools, hospitals, and other health and social care facilities. This definition allows the levy to be used to fund a very broad range of facilities such as play areas, open spaces, parks and green spaces, cultural and sports facilities, healthcare facilities, academies and free schools, district heating schemes and police stations and other community safety facilities.[76]

The Government published a review of the Community Infrastructure Levy on 7 February 2017.[77] This found that some 50% of authorities were not setting a CIL. The chart below shows Government figures for CIL revenues in England since 2016-17. Some 30-40% of the annual figure is made up of the Mayor of London's CIL.[78]

[75] DLUHC, Community infrastructure levy: guidance, 5 Apr 2022, last accessed 15 Dec 2022
[76] As above
[77] A new approach to developer contributions: a report by the CIL review team, MHCLG, 7 February 2017
[78] GLA, Mayoral Community Infrastructure Levy, 2021: see sheet 'MCIL Annual Return Overview'



Source: DLUHC, Local Government Financial Statistics England no. 32, 2022

The 130 authorities charging CIL at 1 April 2016 were concentrated in the south of England.[79] In 2021-22 only 91 authorities charged a CIL, including the Greater London Authority: 29 were located outside the South-East, East of England, and London. Alongside the finding that s106 agreements were concentrated by value in the south of England (see above), this suggests that the scope for capturing land value increases is greater in economically buoyant areas.[80]

The CIL review identified that local authorities did not necessarily receive CIL revenues early enough in the development process for them to contribute to infrastructure. This could lead to inferior infrastructure provision or, conversely, to developments themselves being delayed. The regulations establishing CIL provide local authorities with powers to borrow against future CIL revenues, but these require a 'direction' from the Secretary of State.[81] This has not been provided to date, though the regulations have been amended to permit the Mayor of London to borrow against CIL revenues to fund Crossrail (the Elizabeth Line).[82]

Transport for London also suggested that CIL revenues at local level are constrained by the requirement to ensure the 'strategic viability' of planning sites:

79 CIL revenues cannot be used to fund affordable housing. At the time of writing, the Levelling Up and Regeneration Bill 2022-23 would permit IL revenues to fund affordable housing.

80 See, for instance, evidence to the Public Bill Committee for the Levelling Up and Regeneration Bill (HOC PBC 21 June 2022 c37, c56-7; HOC PBC 23 June 2022 c70, c131)

81 See regulation 60 (6) of the Community Infrastructure Regulations 2010

82 See the Community Infrastructure Levy (England) (Amendment) Regulations 2019, and the Community Infrastructure Levy (England) (Amendment) Regulations 2021

> When local authorities conduct such viability assessments, they tend to base them on hypothetical rather than actual developments. As a result, CIL rate setting has to include a considerable margin for error (typically 40-50 per cent) to ensure most developments remain viable, which creates a bias towards lower rates. Local authorities also have to be mindful of the cumulative burden of affordable housing requirements and CILs on development viability. The planning process allows developers to challenge CIL rates or planning obligations on viability grounds…[83]

5.4 Proposed new forms of land value capture

Infrastructure levy

The Government has stated that the new Infrastructure Levy, introduced by the Levelling Up and Regeneration Bill 2022-23, will be "introduced through a phased 'test and learn' rollout". The rate will be set by local authorities, but the infrastructure levy will be 'mandatory'.[84]

Detailed plans for the Infrastructure Levy are not available at the time of writing. The Government plans to consult and then make regulations containing the detail of the IL. Government publications to date indicate that it will operate differently from the Community Infrastructure Levy.[85] In particular, the Government's intention is to base the infrastructure levy on the actual gross development value obtained at the point of sale. This would mean that it amounts to a direct form of land value capture. In contrast, the CIL charges a rate per square metre of new development.

The Government has also said that "the Bill will require local authorities to prepare infrastructure delivery strategies. These will set out a strategy for delivering local infrastructure and spending Levy proceeds".[86] This implies that revenues from the IL will be ring-fenced to at least some degree. The regulations establishing the IL will be able to require charging authorities to pass on revenues to another body.[87]

Previous Government announcements have supported a separate power for combined authorities to raise a Strategic Infrastructure Tariff (SIT).[88] This would parallel the Mayor of London's power to set a CIL (which can be imposed alongside any CIL imposed by London boroughs). No proposals for the SIT had appeared by June 2022.

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83 Transport for London, Land Value Capture [PDF], 2017, p27

84 DLUHC, Levelling up and regeneration: further information, 11 May 2022

85 Ibid.. See also the debate at Committee Stage of the Levelling Up and Regeneration Bill 2022/23, PBC Deb 6 Sep 2022 c600&ff [PDF]

86 Ibid.

87 See schedule 11 of the Levelling Up and Regeneration Bill 2022-23, which would introduce new section 204O into the Planning Act 2008.

88 MHCLG, Supporting housing delivery through developer contributions, March 2018, p24

Transport premium

In 2017, Transport for London proposed using a 'transport premium' to capture increases in land value arising from infrastructure investments. The premium would be based on increases in either the sale value of a property, or in the annual rental value. TfL suggested a scheme that would apply to properties within 1.5km of a newly-built station. Changes in sale values and rental values within that area would be compared with changes in a control area nearby. A transport premium would then be applied, at the point of sale, to the difference in sale value compared with the control area; and to the difference in annual rent values compared with the control area.

Therefore, for instance, a property within the chargeable zone might attract £1,720 more per year in rent than a comparable property in the control area. A 30% premium applied to this sum would raise £515m per year.[89]

A transport premium of this kind would require primary legislation. The TfL report also raises the possibility of operating a premium of this kind through the council tax system. However, council tax legislation does not allow for different charges to be applied within defined geographical areas within a local authority. The report favours a discrete administrative system to operate this type of premium.

Development rights auction

The concept of development rights auction seeks to capture increases in land value arising from infrastructure projects. The process works as follows. A local authority develops a masterplan, which identifies an area of land to be redeveloped (for instance, surrounding a new rail or urban transit station). The owners of the land that falls within the area are invited (or required, using compulsory purchase powers) to sell their landholdings at auction. The auction bids would be placed by developers. The developers would base their bids on their estimate of the future uplift in the land's value. Reserve prices would be set based on the existing 'pre-scheme' value of the land, and the sale of the individual lots of land would not proceed if they were not met.

The original landowners would then be obliged to pay a pre-set percentage of the profit that they made from the auction back to the local authority. The effect would be that the local authority would capture part of the increase in land value arising from the planned infrastructure investment. The sums involved would depend upon developers' estimates of the increase in land value arising from the development.

This idea has some affinity with the concept of 'land readjustment' (see section 5.1 above), though it is not the same: in this case, the landowners sell the land to the developers.

89 This worked example, and others, can be found in Transport for London, Land Value Capture [PDF], 2017, p43

Transport for London published a report on the development rights auction model in 2018. The report was based on two future station locations on planned future infrastructure projects, one on the Bakerloo Line extension and one on Crossrail 2. The report identified significant difficulties with DRAM:

- Reserve prices might be high – based on the need to assemble and prepare the land for development;
- The closer the development was to actually taking place, the more money bidders would be likely to pay at the auction. However, this creates a catch-22 situation. The developer would need to buy the land well before development takes place, in order to benefit to any degree from a rise in value: but this could mean that developers would be bidding at a point where the financial viability of a project was unclear, which might drive down the amount they were willing to pay. The report also suggested that bids were likely to discount value that would only be gained several years in the future;
- A development using a DRAM could face issues of viability being affected by affordable housing requirements. These could reduce anticipated profits and thus drive down developers' bids, reducing the value available for capture by the local authority.

The report also identified that a DRAM would work best when the following conditions were met:

- Existing values are low relative to surrounding areas or other appropriate benchmarks
- The planned transport schemes are 'new', permanent and relatively large, resulting in significant connectivity improvements
- There is expectation that development densities can be increased and land uses changed to (more valuable) residential uses if the planned investment in the major transport scheme goes ahead
- There is little expectation of uplift without investment in the major transport scheme (potentially because of barriers to development or an absence of development plans)
- There is an expectation that the delivery of the major transport scheme investment is conditional upon the realisation (as a funding contribution to the transport scheme) of a share of land value uplifts
- The abnormal costs required to deliver the required development are not prohibitive.[90]

A similar-sounding scheme was prefigured in 2022, in supporting documentation for the Levelling Up and Regeneration Bill 2022-23:

[90] TfL, Development Rights Auction Model, 2018, p13

> We intend to bring forward legislation to enable the piloting of Community Land Auctions. Piloting authorities will pioneer an alternative way of identifying and allocating land for development, in a way which seeks to maximise the potential uplift in land value. Landowners will be able to submit their land into an allocation process as part of an emerging local plan, offering the local planning authority an option on the land at a price set by the landowner. The local authority will allocate land based on both planning considerations and the option price. It will then auction the development rights onto a successful bidder once land is allocated in the adopted plan. The difference between the option price offered by landowners, and the price offered to develop allocated land, will be retained by local authorities for the benefit of local communities.[91]

The Government introduced amendments at Report Stage in the House of Commons to permit Community Land Auctions to be piloted. These were debated on 13 December 2022.[92]

Hope value

The Land Compensation Act 1961 makes provision for compensation to landowners whose land is compulsorily purchased for development. Section 5 (2) of the Act states that "the value of land shall, subject as hereinafter provided, be taken to be the amount which the land if sold in the open market by a willing seller might be expected to realise". Section 14 (2) (b) then states that, in assessing the amount of compensation, account may be taken:

> of the prospect .... in the circumstances known to the market at the relevant valuation date, of planning permission being granted on or after that date for development, on the relevant land or other land...

This means that, if a local authority makes a compulsory purchase order on a site identified for development within its local plan, it must pay compensation to the owner at a level that reflects that planning permission is likely to be granted on that land in the future, appropriate alternative development (AAD) may take place, and thus the land will increase in value. In effect, the whole of the uplift in the land's value - based on the future (potential) use of the land – is gained by the original owner.

Proposals have been made to change the 1961 Act to enable the local authority to capture some (or all) of the uplift in the land value in this scenario. This could be done directly, by altering how the value of the compensation due to the original landowner must be calculated.[93] This was a significant theme of the Housing, Communities and Local Government Committee's inquiry into land value capture during 2018.[94] During this inquiry, the Committee examined how the concept of 'hope value' operated in other European states:

91 DLUHC, Levelling up and regeneration: further information, 11 May 2022

92 HCDeb 13 Dec 2022 c917&ff

93 Neil O'Brien MP, Green, Pleasant and Affordable (PDF), Onward, June 2018

94 HCLG Committee, Land Value Capture, HC-766 2017-19, 2018, p34-38

> ….during the Committee's visit to Freiburg, Germany, and Amsterdam, the Netherlands, we heard that local municipalities did not acquire land at existing use value or at full market value, but instead had the power to acquire land at a value that offset the cost of providing the infrastructure and services associated with making a development viable. The value paid to landowners was determined by an independent expert panel and became legally binding on both parties. This allowed the local municipalities to capture part of the increase in value of the land to provide the infrastructure and services required for the development.[95]

Additionally, evidence to the inquiry from Shelter suggested holding development land in a 'shared equity' form between landowner and local authority, enabling both to benefit from any increase in value.[96]

The Government published a consultation in July 2022 proposing to adjust the current legal regime governing the provision of hope value.[97] To this end, it tabled amendments to the Levelling Up and Regeneration Bill 2022-23, which would amend section 14 of the 1961 Act. These amendments would provide that local authorities did not have to pay a price for a compulsory purchase that was based on planning permission being granted, unless planning permission had been granted. The consultation said that this "will mean that assessment of value attributable to the likelihood of alternative development is more akin to normal market conditions and rebalance the position on costs and compensation between landowner and acquiring authority to a fairer one".[98] The amendments were accepted.[99]

The consultation also proposed a further change to land valuation:

> We are proposing a further measure to allow acquiring authorities to request a direction from the Secretary of State that, for a specific scheme, payments in respect of hope value may be capped at existing use value or an amount above existing use value where it can be shown that the public interest in doing so would be justified.[100]

This would enable local authorities, or other public sector entities, to apply for a direction from the Secretary of State enabling them to take no account of AAD, or limiting the level of AAD, in the compensation paid to a landowner who is the subject of a compulsory purchase. The application for a direction would need to provide details of the likely amount of land value that the authority would be able to capture as a result, and describe how the value would be applied to the scheme to which the compulsory purchase relates.

Reform of the provisions in the Land Compensation Act 1961 will not generate revenue in itself. A local authority would obtain additional revenue at the point where the change enabled it to obtain a higher sale price than it would have done otherwise, when it sold land that had been, or was to be,

95 HCLG Committee, Land Value Capture, HC-766 2017-19, 2018, p39
96 Ibid., evidence from Shelter, May 2018 (LVC092)
97 DLUHC, Compulsory purchase compensation reforms: consultation, June 2022
98 As above, paragraph 17
99 PBC Deb 18 Oct 2022 c801 [PDF]
100 As above, paragraph 24

developed. In addition, local government accounting practice would require that revenue to form part of a local authority's capital account. This would mean that it could only be spent on buying or maintaining capital assets, not on supporting public services.

6 Tourism tax

6.1 Introduction

A ‘tourist tax’ or ‘transient visitor levy’ comprises a levy on the occupation of hotel beds in a local authority area. Taxes of this kind are frequently imposed in cities with strong tourist economies, in states such as Canada, Spain, Germany, Belgium and France. At present, no legislative power exists to permit local authorities to introduce a tourist tax in the UK.

A tourist tax normally takes the form of a charge per occupied bed or room per night, levied on short-term accommodation providers. In other states, charges may be set at a flat rate or a percentage of the price of the bed or room. They may be set at different rates for different times of the year. Some charging authorities exempt or give discounts for beds occupied by children, police and armed forces, or those travelling for medical reasons. Others provide different rates for campsites, bed and breakfasts, non-serviced accommodation, or hotels with different star ratings.[101]

In the UK, support for a tourist tax has occasionally been expressed by local authorities with strong tourist economies, such as Edinburgh and Bath city councils. The idea also appeared in the reports of the Balance of Funding Review (2004) and the Lyons Inquiry into Local Government (2007).[102] The All-Party Parliamentary Group on Hospitality published a report in 2019, calling for more research and modelling of the potential impacts of a tourist tax before the introduction of legislation.[103] The Municipal Journal conducted a survey in autumn 2019, asking chief executives what additional sources of revenue they would like to be available to local authorities. The survey found considerable support for a tourism tax and for a vacant land tax.[104]

The Scottish Government published a consultation in September 2019 on introducing a 'transient visitor levy'. The Scottish Government’s 2022-23 Programme for Government included a proposal for a bill to introduce a ‘local visitor levy’:

101 Matthew Daley, Options for a tourism levy for London [PDF], GLA Economics, 2017

102 ODPM, Balance of Funding Review – Report, July 2004, para 37; Lyons Inquiry into Local Government, March 2007

103 All Party Parliamentary Group on Hospitality, Tourist tax, 29 May 2019

104 Heather Jameson, “What does our sector want?”, Municipal Journal, 17 October 2019. See also Dan Peters, “Dawes invites tourism tax call”, Municipal Journal, 23 October 2018; Dan Peters, “LGA to build case for tourism tax”, Municipal Journal, 18 January 2019

> The Bill will create a discretionary power for local authorities to apply a levy on overnight visitor stays in accommodation, applying in all or part of their area, to help fund relevant local activities and services.[105]

This Bill has not been presented to the Scottish Parliament as of January 2023. The Scottish Tourism Alliance published a 'manifesto' on a transient visitor levy in January 2023.

The Welsh Government published a consultation on a visitor levy in September 2022, closing on 13 December.[106] This follows on from the Labour-Plaid Cymru co-operation agreement, which says "We will introduce local tourism levies, and look to use local government finance reform legislation to take this forward".[107] The consultation proposes:

- A levy payable by visitors, to be collected by accommodation providers. The consultation did not express a view on the best approach. It noted advantages and disadvantages of applying a percentage of the room price, and a per person per night approach. Its preference was for the same type of approach to be applied across Wales.
- The consultation did not express a view on the appropriate rate, but it favoured the same tax rate being applied across Wales, and it did not favour different rates being applied within local authority areas;
- There would be a 'cap' on the number of nights for which a visitor levy would apply;
- Hypothecation of visitor levy revenues to specified purposes was not favoured;
- Groups such as people staying at traveller sites and people fleeing domestic violence would be exempted. The consultation raised the possibility of exempting other groups such as children, people receiving medical treatment, and disabled people, but did not express a preference.

The Welsh Government is also consulting on introducing a statutory licensing scheme for the providers of visitor accommodation. This would also help to create a register of businesses that would be likely to be liable to pay a visitor levy. This option was also noted in the 2017 GLA report (see below) and the 2007 Lyons Inquiry into Local Government.

The 2019 Institute for Fiscal Studies report Taking Control estimated that a £1 per night levy on bed occupancy would raise £420 million per year across England, skewed towards large cities and other areas with strong tourist economies such as Cumbria, Devon, Cornwall and North Yorkshire.

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105 Scottish Government, Programme for Government 2022/23, 2022, p32

106 Welsh Government, Consultation on proposals for a discretionary visitor levy for local authorities, Sep 2022; Welsh Government, Written Statement: development of a local tourism levy, 10 Feb 2022

107 Welsh Government, The Co-operation agreement: full policy programme, December 2021, section 11

A research report from the Greater London Authority in 2017 modelled the potential revenue arising in London from a number of different approaches to a tourism levy.[108] It estimated that a £1 flat-rate levy per person per night would raise £91 million per year across London. A 5% levy on the cost of accommodation would raise £239 million per year. The report also includes details of tourism taxes imposed in a number of other countries.

The GLA report stated that "in most global cities, tourism levies are hypothecated for activities that support the sector".[109] If this feature were replicated in the UK, tourism tax revenue would not provide an unringfenced source of revenue for local authorities.

The 2017 report also noted that tourism taxes in other states were often imposed in the context of hotels and accommodation being charged lower VAT rates than the standard rate. This is not the case in the UK, where accommodation is charged the standard rate of 20% (see the Library briefing VAT on tourism for more details). The report provided some evidence of tourist taxes impacting upon demand, though the impact varied across different states.

Tourism BIDs

Some UK local authorities have enabled the establishments of BIDs (Business Improvement Districts) that cover tourism-related businesses only. BIDs collect additional business rates payments from businesses operating in specified geographical areas (see the Library briefing paper Business Improvement Districts). For example, Blackpool and Great Yarmouth operate tourism-based BIDs. Three operate in Scotland: Go Tweed Valley (2020), Moray & Speyside (2020), and Visit Inverness Loch Ness (2014). The Scottish BIDs cover types of business such as accommodation, restaurants, museums and galleries, and self-catering holiday lets. The amount of BID levy paid is based on the rateable value of a business's property.

An accommodation BID will be introduced in Manchester from 1 April 2023, following a ballot on 7 November 2022. 39 of 79 affected businesses cast a ballot (just under 50%). The BID levy will be payable by hotels and serviced apartments with a rateable value of £75,000 or more, within Manchester city centre and a small adjoining part of Salford.[110] The formula to calculate the levy will take into account occupation rates and rooms available.

In Liverpool, an accommodation BID will begin from 1 April 2023, with the BID levy payable in respect of properties with a rateable value of £45,000 or more. The levy will be administered by Liverpool BID Company, which already

[108] Matthew Daley, Options for a tourism levy for London [PDF], GLA Economics, 2017

[109] As above p3

[110] See Manchester City Council, Manchester Accommodation Business Improvement District A BID, 2022

operates a ‘retail and leisure’ BID and a ‘culture and commerce’ BID. It is expected to raise some £4.3m over its five-year term.[111]

BID levy income amounts to a form of hypothecated additional revenue. It is managed by the BID management board, not by the local authority; and it falls on business rate-payers, not on visitors.

111 Jennifer Williams, Oliver Barnes and Lukanyo Mnyanda, English cities move towards ‘hotel tax’ to plug hole in state funding, 29 Nov 2022

7 Alternative forms of local taxation

This section highlights a number of taxes that, in some states, are available to regional and municipal authorities, but which have featured minimally or not at all in the debate around local authority taxation in the UK.

In some states, revenues from the types of tax noted below flow to regional and municipal authorities, but the taxes themselves are not fully devolved to local levels. For instance, local authorities may have the power to set additional rates on taxes that are operated at a national level. These are often known as 'shared taxes'. The tax revenues are collected by the national tax authority and remitted to the regional and municipal authorities. Alternatively, an 'assigned revenues' system may be used. In this case, the local or regional authority receives a share of the revenue from a certain tax or taxes, but it has no power to alter the rates, the taxbase, or reliefs.

It is also possible for revenues from specific taxes to be assigned to local governments as a whole, but for them to be distributed on the basis of a needs assessment rather than on the basis of where the revenue was collected. The needs assessment may be determined by the local government sector, or by central or regional governments.

7.1 Payroll taxes

A payroll tax is a tax paid by employers and/or employees, normally based on the employee's salary. In the UK, National Insurance is an example of a payroll tax. Payroll taxes are normally operated at national level, and the tax base, tax rates and exemptions are normally fixed by national government.

Payroll taxes are used by devolved authorities in other states. For instance, French cities and regions may levy a 'versement transport', a payroll tax of up to 2.5% (2.95% in Ile-de-France), based on employees' pay, levied on all organisations with 11 or more staff. The funds are hypothecated to be spent on local public transport.

Apprenticeship Levy

Since 2017, businesses in the UK have been subject to the Apprenticeship Levy. This is a 0.5% levy on the spend on salaries by all UK employers with total pay bills of £3 million or more. A £15,000 allowance is subtracted from each employer's levy bill, in order to ensure that the levy only falls on the amount

of pay above the £3 million threshold.[112] The employer then receives a Government voucher, to the value of the levy they have paid, which must be spent on apprenticeship training and assessment. The voucher expires after 24 months. Further information is available in the Library briefing paper Apprenticeships and skills policy in England.

Apprenticeship starts decreased significantly following the introduction of the levy. Some representative organisations have claimed that a contributing factor is that the vouchers must be spent on Government-approved training schemes, and have called for more flexibility for employers in choosing how to spend the funding. Other factors include a lack of suitable apprentices or training options, and a requirement that an apprentice funded by the levy must spend 20% of their time on training.

The apprenticeship levy raised £3.2 billion in 2021/22.[113] In 2018 the then seven metro-mayors, and the Mayor of London, demanded that unspent apprenticeship levy funds should be transferred to them to support their skills and training responsibilities.[114] The London Skills and Employment Call for Action made the same proposal in 2019.

As of 2019, employers holding levy vouchers can transfer 25% of their value to other organisations. A mechanism for rerouting levy vouchers in this way was piloted by the West Midlands Combined Authority.[115]

The 2020 TfL Independent Review suggested a levy of 0.4% of gross annual salary, falling on firms located within London. The review calculated that, if businesses with a payroll of under £3 million were excluded, this would raise some £500 million per year.[116] Introducing a levy of this kind would require primary legislation.

7.2 Income tax

In some states, municipal, local, or regional authorities are funded by a share of income tax. For instance, in Italy and Poland, the regional tier ('regioni' and 'powiaty' respectively) receive a proportion of income tax collected from their inhabitants, whilst in Sweden some income tax revenue goes to the regional or 'land' governments and to municipal governments.

Ordinarily, these sources of local tax revenue form part of the national income tax system. The national government normally determines the tax base (i.e., what income is subject to tax), the different tax bands, and reliefs. It will

112 The value of the voucher is reduced proportionately to any pay going to employees living outside England.
113 HMRC, HMRC tax receipts and National Insurance contributions for the UK, 22 Nov 2022
114 BBC, "Mayors want to control £1.3bn unspent apprenticeship funds", 13 June 2018
115 Adam Hawksbee, Give Back Control: realising the potential of England's mayors, July 2022, p32
116 TC Chew, Stephen Glaister, Bridget Rosewell and Jonathan Taylor, TfL Independent Review, 2020, p48

normally also be responsible for collecting the tax revenue and distributing it to the local and regional authorities.

In Scotland, the Scottish Parliament sets income tax bands and allowances for non-savings, non-dividend income tax and keeps the relevant income tax revenue.[117] The personal allowance (on which no income tax is payable), and income tax on dividends and savings, are reserved to the UK Parliament.[118] The funding that the Scottish Government receives from the UK Government is adjusted to reflect income tax devolution.

In Wales, the UK Government has reduced each rate of income tax by 10p in the pound, and the Senedd levies 10p of Welsh income tax per pound.[119] Income tax bands, the personal allowance, and income tax on dividends and savings are reserved to the UK Government. The funding that the Welsh Government receives from the UK Government is adjusted to reflect income tax devolution.

The Welsh Government published a study in 2020 on replacing council tax with a local income tax. The study assumed that a local income tax would not be able to use the UK-wide tax collection structures operated by HMRC, and it was therefore largely exploratory in character.[120]

The IFS report Taking Control estimates that levying an additional 3p on all rates of income tax would raise some £19 billion, and an additional 3p solely on the basic rate of income tax would raise some £12 billion.[121] The Government's figures show that raising all rates by 1p would raise some £6.6 billion.[122]

In some states, a percentage of taxes on business profits – comparable to the UK's corporation tax – are collected by municipal, local or regional authorities. For instance, Italian regions and municipalities are permitted to levy a supplementary rate of IRAP ('business tax'). Regions can levy rates of between 3.9% and 8.5%, depending on the type of business, and municipalities can levy an additional rate of up to 0.92%. Polish regions also receive a small percentage of the corporate income tax collected within their areas.

117 Non-savings, non-dividends income relates to earned income including: pay from employment; trading profits from self-employment and unincorporated businesses, such as partnerships; pensions (state, occupational and personal); taxable benefits (e.g. Jobseeker's allowance); income from property.

118 See gov.uk, Income Tax in Scotland: Current rates

119 See gov.uk, Income Tax in Wales

120 See Welsh Government, An assessment of the feasibility of a local income tax to replace council tax in Wales, 2020

121 IFS, Taking Control: which taxes could be devolved to English local government?, 2019

122 HMRC, Direct effects of illustrated tax changes bulletin, 16 June 2022

7.3 Vehicle excise duty

Vehicle excise duty (often referred to as 'road tax') is payable to the UK Government annually, on all registered vehicles using roads in the UK. The total sum raised is in the region of £7bn per year across the UK.[123]

Proposals have been made in the past for the transfer of vehicle excise duty receipts to local or regional authorities. For instance, a report to Transport for London in 2020 argued that TfL should receive a proportion of VED directly. TfL does not receive any Government funding at the time of writing, although it is responsible for maintaining trunk roads in London as well as public transport systems. The report said:

> London does not receive any grant for maintenance of London's strategic road network while Highways England now receives England's VED for motorways and trunk roads. This is despite 90% of the journeys of London car owners being entirely within Greater London, and in addition 25% of road journeys in the capital are made by people who live outside its boundaries – but no VED is being used to support maintenance of the bulk of major London roads.
>
> The Government has indicated that TfL may receive some grant funding for major roads, but this would equate to less than £100 million a year and nothing has been received so far.[124]

Some local and regional governments in other states receive funding from equivalent taxes to VED.[125]

7.4 Value Added Tax

VAT is charged on value added by businesses with a turnover of £85,000 or more. The standard rate is 20%, with lower rates or zero rates payable on certain classes of product.[126]

The European Union permits member states to charge different rates of VAT on specified types of product, but it bars member states from charging different rates of VAT in different parts of their territory. Since the UK left the EU, some publications have suggested that a 'sales tax' could be used as a source of revenue for local authorities. Sales taxes differ from VAT, as they are levied at the point of sale to a consumer whereas VAT is also incurred in business to business transactions.

[123] Office for Budget Responsibility, Vehicle excise duty, Mar 2022
[124] TC Chew, Stephen Glaister, Bridget Rosewell and Jonathan Taylor, TfL Independent Review, 2020, p37
[125] See IFS, Taking Control: which taxes could be devolved to English local government?, 2019, p14
[126] See gov.uk, VAT rates on different goods and services

It is difficult to attribute VAT receipts to particular localities, as it is hard to identify the location in which a business adds value within its business activities. Businesses are also able to deduct the VAT paid on inputs, which might arise in another locality again. Accurately assigning revenues to localities would lead to high administration costs.

Scotland's fiscal framework provides for the Scottish Government to receive 50% of all VAT receipts in Scotland. However, due to the difficulties of identifying the location where VAT liability arises, the actual amount received by the Scottish Government is an approximation arrived at by a calculation agreed between the two governments.[127]

The 2020 TfL Independent Review suggested that a 0.5% supplement on VAT in London – taking the rate from 20% to 20.5% - would raise £500 million in London. Alternatively, an equivalent share of current VAT revenue could be assigned to the Mayor of London. The IFS report Taking Control estimated that a 3% local surcharge on VAT could raise £16.8 billion across England.

7.5 Land value taxation

Land value taxation has been advocated as an alternative to the more familiar property taxes for over 100 years. The principle of land value taxation is to tax the unimproved value of land – that is, to take no account of the land's use or the value of any buildings on it. Land value taxes are uncommon internationally: examples of states that use them include Denmark, Estonia, and Australia.[128]

Calls have been periodically made to replace council tax and business rates with a land value taxation system. This was a recommendation of the 2011 Mirrlees Review (Tax by Design), managed by the Institute of Fiscal Studies. The Scottish Land Commission published a study in 2018 entitled Investigation of Potential Land Value Tax Policy Options for Scotland. This noted that an LVT would require accurate data on land ownership, and that it would be more easily administered alongside a zoning system for land:

> ...the planning system must be able to specify a permitted land use for each parcel and confirm any development rights in order to value the land. Scotland has a plan-led discretionary system, which is different from zoning systems that delineate permitted uses on an area-by-area basis, conveying development rights to landowners without the need for detailed approval.[129]

[127] See some additional information at HMRC / Scottish Government, Scottish VAT assignment – Experimental Statistics 2020

[128] Further detail on the history and principles of land value taxation can be found in the Library briefing paper Land value taxation (2014).

[129] Scottish Land Commission, Investigation of Potential Land Value Tax Policy Options for Scotland, 2018, p9

The Scottish report also noted that valuing land for an LVT would be challenging. In particular, the principle of an LVT is to value land based on its 'highest and best use', in order to encourage land to be used in the most effective way: but what constitutes 'highest and best use' is in part a matter of judgement. The report also noted:

> There was little evidence that LVT has any perceptible redistributive effect, helps with breaking up large estates, or with bringing under-utilised land in to beneficial use, although it was claimed that in Estonia it had encouraged owners to dispose of land not in productive use.[130]

In 2021, the UK Government stated that it would not pursue a land value tax, due to practical challenges and a lack of evidence of its benefits.[131]

The Welsh Government published an exploratory report in 2020 entitled A technical assessment of the potential for a local land value tax in Wales. This report examined land use data and analysed available data on land values across Wales. It suggested that an annual tax rate on land of 1.41% of the value of land in domestic use, and a rate of 3.90% on land in non-domestic use, would raise the same amount of revenue per year as council tax and business rates (respectively) raise currently. However, the report also concluded that "the data requirements for implementing a local LVT in Wales are not currently met".[132]

The report stated that the outcomes for taxpayers from its proposals would be considerably more progressive than under council tax, and this would reduce the need for reliefs and exemptions for less wealthy taxpayers. The report proposed that liability for a land value tax should fall on the owner of the land, instead of the occupier.

By the same token, local authorities in wealthier areas would increase their tax revenue under a more progressive system, and those in poorer areas would see their tax revenue reduced. This points towards the Welsh Government operating a system of redistribution.[133] The report suggested that that, in turn, might argue for separate national and local rates of LVT, with the national rate being used for redistribution between authorities.[134]

The Welsh Government's 2022 consultation on reforming business rates states that they are continuing to consider the option of an LVT for Wales:

> Over the next four years we will build on the findings from that report, drawing on a wide range of expertise, to develop a clear understanding of what a local land value tax could look like for Wales and how it could work in practice. This analysis will include a roadmap for potential implementation. Any proposals

130 As above, p11
131 HM Treasury, Business rates review: final report, 2021, p4
132 Welsh Government, A technical assessment of the potential for a local land value tax in Wales, 2020, p83
133 As above, p85
134 Welsh Government, A technical assessment of the potential for a local land value tax in Wales, March 2020, p85

> we formulate about the design or implementation of a local land value tax would be the subject of detailed consultation.[135]

7.6 Stamp duty land tax

Stamp duty is charged to the purchaser of a property. It is charged at differential rates according to the property's purchase price. The higher rates are levied on the amount falling into the band in question: so, for instance, a property costing £300,000 will incur stamp duty of 5% on £50,000 (the difference between £300,000 and £250,000). When a purchaser buys a residential property in addition to their primary one, this incurs a 3% surcharge.[136]

Stamp duty land tax operates in England and Northern Ireland. It was devolved to Scotland and Wales in the mid-2010s, where it has been renamed Land and Buildings Transaction Tax (LBTT) and Land Transaction Tax (LTT) respectively. Estimated revenues for England and Northern Ireland for 2021-22 are £14.1 billion, of which £4.6 billion derives from the 3% non-primary residence surcharge.[137]

Stamp duty has been proposed for potential devolution in the past. The London Finance Commission's reports Raising the Capital (2013) and Devolution: A Capital Idea (2017) proposed devolving stamp duty in its entirety to London.

In contrast, the Institute for Fiscal Studies suggested that stamp duty was not a good candidate for devolution. This is because stamp duty revenue varies widely across England, and because receipts are volatile year-on-year.[138] Stamp duty has also been criticised on conceptual grounds. For instance, the IFS's 2011 Mirrlees Review stated that:

> ....the case for maintaining stamp duty is very weak indeed. ...by discouraging mutually beneficial transactions, stamp duty ensures that properties are not held by the people who value them most. It creates a disincentive for people to move house, thereby leading to potential inflexibilities in the labour market and encouraging people to live (and businesses to operate) in properties of a size and in a location that they may well not otherwise have chosen.
>
> There is no sound case for maintaining stamp duty and we believe that it should be abolished. Simply removing it would create windfall gains for existing owners, as it will largely have been capitalized into property values; so a reasonable quid pro quo for its abolition is that a similar level of revenue should be raised from other, more sensible, property taxes.[139]

135 Welsh Government, Reforming Non-Domestic Rates in Wales, 2022, p35

136 See the current rates of stamp duty land tax in England at Stamp Duty Land Tax: Residential property rates

137 HMRC, Quarterly Stamp Duty Statistics, Nov 2022

138 IFS, Taking Control: which taxes could be devolved to English local government?, 2019, p28-30

139 IFS, Tax By Design (The Mirrlees Review), 2011, p403-4

The proposals for a ‘proportional property tax’ from Fairershare (see section 2.4 above) envisage abolishing stamp duty entirely: the proportional property tax would be set at a level that would raise the same amount of revenue as council tax and stamp duty raise now, taken together.

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