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Property Tax and Assessment News from Around the World

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Higher tax on development land proposed by MPs

Landowners could be slapped with a higher tax on the increased value of land approved for development under proposals put forward by a government committee.

The report, published on 13 September by the Housing, Communities and Local Government Committee, concluded that there was scope to reform existing taxes and charges to take a bigger slice of the uplift in value.

It stated that statistics showed agricultural land, having been granted planning permission for residential use, increases in value from £21,000/ha to £1.95m/ha.

Because of this, the committee suggested that there was a strong case for developing new tax mechanisms and reforms to compulsory purchase rules to capture a 'significant proportion' of this uplift for investment in infrastructure and public services.

Committee chairman Clive Betts MP said: "The current land value capture system allows landowners, through no effort of their own, to make multi-million pound profits from the substantial increases in value that arise from public policy decisions, such as the granting of planning permission.

"As these increases are significantly created by the actions of the state, it is right that a significant proportion of this should be shared with the local community."

It said this would allow local authorities to increase the financial contribution made by a development to local community projects.

The report also recommended removing so-called 'hope values' for land that had been earmarked for compulsory purchase and development.

These are set by surveyors and reflect the increased value of the land once it has been designated as having development potential.

Report Recommendations

- Give authorities more power to take more of the value by reforming of the Land Compensation Act 1961
- Simplify the Compulsory Purchase Order system, to make it faster and less expensive for local authorities
- Reduce the number of exemptions under the Community Infrastructure Levy (CIL)

But the CLA claimed the reforms would hit government targets for new housing by removing the incentive for landowners to bring land forward for development.

The organisation added that that landowners and the development sector already contributed significant sums of money to local communities to pay for affordable housing and social infrastructure.

CLA policy director Christopher Price pointed out that £6bn had been raised in 2016/17 through planning obligations like the Community Infrastructure Levy and Section 106 agreements (see below).

"This money was raised by capturing the change in the value of land when planning permission is granted," Mr Price said.

"History shows us that increasing these obligations too far stops landowners bringing land forward and stalls development," he added.

What are the Community Infrastructure Levy (CIL) and Section 106 agreements?

The Community Infrastructure Levy is a planning charge, introduced by the Planning Act 2008 as a tool for local authorities in England and Wales to help fund infrastructure to support the development of an area.

It is a charge levied on the floor area of new buildings.

Section 106 agreements are attached to planning permissions and may impose restrictions on the nature of development (for example, requiring a given portion of housing to be affordable) or require works to compensate for loss or damage by a development.

Increases in land value is 'fundamentally about fairness' and should benefit local communities, say MPs

Significant increases in the value of land resulting from public policy decisions should be shared with local communities say MPs.

The report from the Housing, Communities and Local Government Committee has looked at how this land value increase can be captured to generate extra funding for local infrastructure and affordable housing.

According to government statistics, agricultural land which is granted planning permission for residential use would increase, on average, from £21,000 per hectare to £1.95m per hectare.

The Land Value Capture report published yesterday argues that local authorities and central government should capture a "significant proportion" of this uplift in value so they can reinvest into local communities.

The report recommends reform of the Land Compensation Act 1961 which they say would lead to a "much-needed" boost in housebuilding.

Chair of the committee Clive Betts said: "Land value capture is fundamentally about fairness and necessity.

"Fairness, because the current system allows landowners, through no effort of their own, to make multi-million-pound profits from the substantial increases in land value that arise from public policy decisions, such as the granting of planning permission.

"As these increases are significantly created by the actions of the state, it is right that a significant proportion of this should be shared with the local community."

The committee argues that there is scope for raising additional revenue from reforms to taxes and charges, new mechanisms of land value capture and reform of the way local authorities can buy land.

In response to the report, Local Government Association's Housing spokesman Cllr Martin Tett said: "We have long–called for reforms to land compensation and compulsory purchase laws and are pleased that the committee has called for the government to implement several of our recommendations.

"We are also pleased the committee recommends that government provides extra support to councils, through the LGA, to help give local authorities a strong hand in negotiations with developers.

"Government action on these recommendations would have a significant impact in building more homes with the right infrastructures and places that people want to live and work."

Betts added: "If the government is to meet the challenge of providing enough new homes over the coming years, then they will also need to find the funds for improving the surrounding infrastructure.

"Our proposed package of reforms to taxes and charges will ensure a fair proportion of the increase in value arising from public policy decisions can be used by national and local government to invest in new infrastructure and public services."

Double council tax for 15,000 empty homes

More than 15,000 empty homes were charged double council tax last year in a bid to reduce the number of unoccupied properties in Scotland.

BBC research found councils such as Aberdeen, Edinburgh and Fife had raised millions in extra revenue while others had not used the powers at all.

Glasgow City Council has just begun to use the levy which has been available to local authorities for four years.

Campaigners said the premium had a part to play in getting homes back into use.

How does it work?

Since April 2014, Scotland's local authorities have been allowed to charge 200% council tax on properties that have been unoccupied for more than a year.

The aim of the law change was to reduce the estimated 37,000 homes lying empty across the country.

The discretionary charge was intended to encourage owners to bring empty properties back into use and reduce the blight of unoccupied homes.

It does not apply to second or holiday homes, where the owner can prove they are used for more than 25 days a year.

How much has been raised?

Freedom of Information requests to all 32 Scottish local authorities showed that almost £36m of additional revenue has been raised in the past four years - about £12m last year.

Aberdeen City Council claimed the most additional revenue under the new policy, almost £2.4m in 2017.

Perth and Kinross drew in £1.48m, Edinburgh gained an additional £1.14m and Fife raised the same amount.

Who does not use the power?

Scotland's largest council, Glasgow, told BBC Scotland it had begun to use the empty property powers in April this year, four years after they became available.

It said: "The premium exists to try to discourage owners from leaving properties vacant, which can have a detrimental impact on communities and encourage anti-social behaviour."

The council has no figures for how many times it has used it so far.

South Ayrshire and West Lothian have also just started to use the powers.

East Ayrshire, East Renfrewshire, East Dunbartonshire, South Lanarkshire, Orkney and Shetland do not currently charge extra council tax on long-term empty properties.

What does each council do?

Aberdeen - 1,063 empty houses charged double last year - £2.37m raised
Aberdeenshire - 677 empty houses charged last year - £520,642 raised
Angus - 286 empty houses charged last year - £270,165 raised
Argyll and Bute - 744 houses charged last year - £552,789 raised
Clackmannanshire - 76 houses last year - £45,000 raised
Dumfries and Galloway - 1,748 houses last year - £457,462 raised
Dundee - 275 houses last year - £279,888 raised
East Ayrshire - starting policy next month
East Dunbartonshire - starting April 2019
East Lothian - 256 empty houses charged last year - £78,590 raised
East Renfrewshire - No policy
Edinburgh - 1,181 empty houses charged last year - £1.14m raised
Falkirk - 381 houses last year - £377,974 raised
Fife - 1,741 empty houses charged last year - £1.14m raised
Glasgow - Started charging in April 2018
Highland - 744 empty houses charged last year - £764,249 raised
Inverclyde - 731 empty houses charged last year - £122,000 raised
Midlothian - 249 charged last year (the first year it charged) - £127,567 raised
Moray - 339 houses last year - £298,715 raised
North Ayrshire - 465 houses charged last year - £279,930 raised
North Lanarkshire - 867 houses last year - £283,412 raised
Orkney - No policy
Perth and Kinross - 843 empty houses charged last year - £1.48m raised
Renfrewshire - 378 houses last year - £299,000 raised
Scottish Borders - 1,316 houses charged last year - £611,881 raised
Shetland - no policy
South Ayrshire - Started from April 2018
South Lanarkshire - no policy
Stirling - 319 houses last year - £282,781 raised
West Dunbartonshire - 65 houses charged last year - £23,031 raised
West Lothian - started from April 2018
Western Isles - 336 houses last year - £174,488 raised

Paying full whack

Maureen Dixon's house in Arbroath has been empty for almost four years.

She said: "For a couple of months we didn't have to pay anything, but now we have to pay the full whack.

"Here, we're on band B, which was £114 a month, but we're now having to pay £228."

She and her husband Jim are now renovating it for sale.

The BBC data showed there were 286 properties in Angus which could have double council tax levied on them in 2017.

The local authority's Empty Homes Officer, Sean Maxwell said the policy had already paid dividends.

"Not only does it improve housing demand, it also has positive impacts on the local community," he said.

"Obviously within Angus, we don't want to see unoccupied properties, we'd rather see these brought back into residential use and ultimately local families and local individuals staying in these houses."

Angus Council has operated the policy of charging 200% council tax on long-term empty properties since 2015, and has so far claimed more than £866,000 through the levy.

Why have some councils delayed?

East Ayrshire Council will introduce the empty homes levy in October.

Depute leader Elena Whitham said it had been important to get support mechanisms in place to offer help to owners faced with the threat of double council tax.

She said: "We've now created a full team to support this endeavour so we've got an empty homes officer, we've got teams to help people with restoration and a team to help seek funding.

"I think it really would have been counter-productive had we employed these measures before we had a team like this in place to make sure we can support owners."

She said bringing buildings back into use worked for everyone - providing extra income for the local authority, and improving the environment for neighbours.

Shaheena Din, national manager for the Scottish Empty Homes Partnership, said the empty homes levy could bring revenues which would fund service to help owners get properties back into use.

She said: "On its own empty homes work won't fix out broken housing system.

"But it does have a part to play and it also contributes to a wide range of other council policy areas including safer communities and stronger local economies."

UK's wealth rises as land values soar by £450bn in a year

Land now 51% of UK’s net worth – a huge transfer of wealth to landowners, say campaigners

A dramatic rise in land values pushed Britain’s wealth to a fresh high of more than £10tn last year, highlighting the huge gains made by developers in property hotspots across the UK.

From London and the home counties to Cambridge and popular parts of Devon and Cornwall, land values have become the single largest element of wealth, dwarfing household wealth locked up in property and financial savings.

Official figures showed that the UK’s net worth rose by £492bn between 2016 and 2017 to £10.2tn, with the lion’s share of the increase accounted for by a £450bn jump in the value of land.

The rise continues a trend since 2012 that has pushed the average assets held by each Briton to £155,000, up £6,000 from 2016.

The Office for National Statistics said consistent increases in the value of land meant it accounted for 51% of the UK’s net worth in 2016, higher than any other G7 country that produces similar statistics.

In France, which has a land mass twice the size of the UK, land values account for 41% of wealth while in Germany they account for only 26%.

This week several landowners have outlined plans for developments, including the Duke of Westminster's Grosvenor Group, which said it was taking a growing interest in residential property outside central London.

It said it would build thousands of homes on greenfield sites around Oxford and Cambridge, which are to benefit from Treasury plans to connect the two university towns with a cross-country rail link.

Analysts said much of the increase in land values was in response to Britain's rising population, which has put pressure on the government to back house builders seeking to develop green field sites and farmland in south-east England and other development hotspots around the country.

The price of farmland can increase by 100 times when developers succeed in persuading ministers to redesignate it for housing. Areas of London that were previously derelict, especially in the east of the capital, have seen huge rises in values as regeneration efforts and improved transport links have fed into property prices.

Commercial property has also enjoyed an upswing in value since Britain's recovery following the 2008 banking crash, more than offsetting recent declines in much of the retail sector.

The ONS figures go beyond a study last year by Lloyds bank that showed that Britain's net worth had climbed above £10tn for the first time but did not single out the value of land.

The steady increase in land values is expected to trigger further calls for a land value tax or new rules allowing local authorities to reap the rise in values by allowing them buy land earmarked for development.

A growing number of think-tanks and politicians support imposing a tax that would take a slice of rising land values.
The Institute for Fiscal Studies has urged the Treasury to develop a scheme, while the Green party co-leader Caroline Lucas has tabled a private member's bill proposing a land value tax. Labour said in its 2017 election manifesto that it would consider a similar tax.

Mark Wadsworth, the head of the Campaign for Land Value Taxation, said: "The minority with a vested interest in high land values will no doubt celebrate higher values, saying that is shows the importance of land to the UK economy.

"In truth, land values are not a net addition to national wealth, they merely represent the benefits that accrue to landowners because of government spending on public services funded out of general taxation; land values are actually just a measure of ongoing transfers of wealth from taxpayers to landowners and a zero-sum game."

Nine radical ways to reform the land market

The Progressive Policy Think Tank has called for an urgent reform of the land market, citing figures which suggest a plot of land now accounts for 70% of a property's value.

Land is an essential factor in all economic activity but, if it is not properly managed and regulated, it can play a destabilising role in the housing market and the wider economy, the left-leaning think tank said in a recent report.

The UK's dysfunctional land market and soaring land values have helped drive growing wealth inequality, create the conditions for a broken housing market, and are a root cause of an unproductive and unstable economy, it claimed.

If that isn't enough to convince you, it even quotes Winston Churchill, who once said that a landowner "renders no service to the community, he contributes nothing to the general welfare, he contributes nothing to the process from which his own enrichment is derived."

Reform of the land market must therefore be focused on reducing the financial speculation that occurs in land and sharing the benefits of increases in land values for the benefit of the public good, the report concludes. It suggests:

- The government should reform compulsory purchase laws to allow local authorities and public bodies to buy land at a fair value that enables the delivery of high quality development.
- The government should give planning authorities in England the powers to 'zone' areas of land for development and freeze its price close to its current use value, as happens in Germany.
- The fire-sale of public land to the highest bidder should be ended. Public land should instead be prioritised for the delivery of genuinely affordable and high-quality developments.
- The cap on local authority borrowing to finance housebuilding in England should be abolished.
- The government should exempt borrowing for council housing under its measure for calculating UK debt, bringing the country in line with the accepted international criteria which does not include council housebuilding.
- Government should set new guidelines in England for the minimum proportion of new housing developments which must be genuinely affordable.
- The government should introduce an annual property tax to replace council tax and eventually stamp duty.
- The government should introduce a land value tax to replace business rates. A land value tax on business land would be the most economically efficient means of taxing commercial land. It would support, rather than deter, productive investment; it would capture some of the unearned windfalls from the ownership of land; and it would reduce incentives for further speculation
- The government should reform macroprudential policy, both to counter systemic risk and limit house price inflation.

"The proposals set out in this paper for regulating our land and housing market, and for a more progressive taxation system focused on land, are a first step in ensuring that the unearned 'economic rents' which arise from landownership are shared for the public good," the report said. "Our proposals will reduce speculation in land, lead to a decrease in wealth inequality, and allow for a greater focus on productive economic investment.

"They will also help to create a better-functioning housing market, capable of delivering the number of homes we need to meet demand, particularly genuinely affordable homes. Together, our proposals will make for a stronger, more just and prosperous economy."

British wealth is concentrated not in property but the land underneath

Land is central to the failing housing market in England.

Conventional wisdom suggests that the UK has a problem with house prices – after all they have increased nearly tenfold since 1979 – twice the rate of consumer prices. But the reality is that we have a problem with land.

Land now represents over half of the UK's total net worth. At £5trn it is worth more than all the homes, commercial property, machinery and equipment and all other non-financial assets in the UK combined. In 1995, the value of land held by households (largely that beneath people's homes) made up a fifth (£600bn) of UK households' net wealth. By 2016, this had risen to two-fifths (£3.9trn) and if previous trends continue, over the next two decades it will rise to almost three-fifths (£22.8trn).

Why is this a problem? Because the increasing accumulation of wealth in land (much of it through housing) amongst a dwindling group of people is bad for our economy, and our society.

First, our current system helps drive wealth inequality. The top 10 per cent in the UK own property wealth averaging £420,000 in value, compared with the bottom 30 per cent who have no net property wealth. But new IPPR research demonstrates that the vast majority of this wealth – 70 per cent – is held not in the property itself, but in the land that lies underneath.

For most people the only means of benefiting from the rising value of land is to buy a home, but home ownership has fallen rapidly in recent years, most dramatically among younger generations. Research by the Resolution Foundation has shown that in 1990, one in two people aged between 25 and 34 owned their own home. By 2017, it had fallen to one in four. By contrast, for those over 65, one in two people similarly owned their own home in 1990. By 2017, it had increased to three in four. If capital – or land in this case – were owned equally throughout the population, then the appreciation of property assets would not result in rising inequality. However, the differential rates of ownership for individuals and households mean that this is not the case.

Land is also central to the failing housing market in England. Under our present planning system, a landowner can expect a huge unearned windfall if they get planning permission to build homes on a piece of land they own. For instance, a hectare of agricultural land in South Oxfordshire is typically worth £25,000. With residential planning permission, however, the value would typically rise to £5.6m – 224 times higher. The high cost of land makes it more expensive, difficult and risky to build homes at affordable prices. This higher risk limits the rate at which new homes can be built.

Third, the speculative land market plays a key role in the UK's woefully poor productivity. Financial deregulation in the 1980s saw banks apply a greater focus on creating credit collateralised by property (and the underlying land value), shifting away from their more traditional role of directing savings into productive investments. Today, real-estate loans to business and individuals now account for over 78 per cent of all loans to non-financial UK residents. The sheer scale of the credit directed at land and property, in the absence of appropriate regulation on either land or finance, has driven up the price of land, rather than increasing the productive capacity of the economy, or raising wages or GDP growth.

Fourth, the broken land market and high house prices are feeding macroeconomic instability. While priced out house hunters may dream of falling house prices, in reality this means reduced residential investment, and households falling into negative equity. Falling house prices also tend to have a negative impact on consumer spending, while increasing bad loans, and lowering the level of capital available to banks. With credit risk spreading, the economy can enter a disastrous cycle that eventually increases unemployment and GDP. Maintaining house prices is intrinsically linked therefore with securing macroeconomic stability, as has been consistently highlighted by the Bank of England.

To tackle this the government needs to get serious about regulating and taxing the speculative land market. There is plenty that it could do.

First, it should change the law to prevent landowners from benefiting from the unearned windfall gains that accrue to them when they are awarded planning permission. To achieve this the government should reform compulsory purchase laws to allow local authorities and public bodies to buy land at a fair value that enables the delivery of high quality development. This is the approach taken in a number of countries including Germany, the Netherlands, and in the UK prior to 1961. The government should also give planning authorities in England the powers to "zone" areas of land for development and freeze its price close to its current use value, as happens in Germany.

Second, land and property taxation should be overhauled. The government should introduce a land value tax to replace business rates. This would be the most economically efficient means of taxing commercial land: it would support, rather than deter, productive investment; it would capture some of the unearned windfalls from the ownership of land; and it would reduce incentives for further speculation. The government should also consider replacing council tax and eventually stamp duty with an annual property tax which would be far more progressive than council tax, and would effectively capture increases in land values and house prices in a way in the current system does not.

Third, the government should reform macroprudential policy, to reduce financial speculation in land. The Financial Policy Committee (FPC) of the Bank of England could, for example, be given an explicit house price inflation target, set by government. The aim of such a target would be to set property price expectations (a critical driver of house price inflation and land as the underlying asset), reduce excessive debt, and reduce capital inflows by disincentivising investment in UK property on the part of overseas investors. Measures the Bank of England could take to implement such a target could include controlling mortgage lending, in the form of limits on loan-to-value and loan-to-income ratios.

Wealth inequality, a poorly functioning housing market, an economy focused on unproductive investment and macroeconomic instability are all negative consequences of our current treatment of land within the UK economy. Our existing systems for regulating and taxing land, far from acting to curb some of the worst excesses that arise from land speculation, actively encourage it.

Greater regulation and a far more progressive taxation system focused on land, would ensure that the unearned "economic rents' which arise from landownership are shared for the public good. If politicians want to build a stronger, more just and prosperous economy then reform of the land market is a good place to start.

Abolish rates – and make our land work for the people

Business rates are broken and deter companies from investing to boost productivity, argues Chris Fox, while land taxes would empower enterprise

At every Liberal Democrat conference, party members descend on our Glee Club to sing songs poking fun at ourselves and other parties. Each year, they begin with an old Edwardian tune called *The Land*, whose chorus ends with the line, "God made the land for the people."

This song has followed my party and its predecessors ever since David Lloyd George proposed a tax on land in his People's Budget of 1909. His argument was simple: if the land is for the people, then why is our tax system skewed towards the minority of private landowners that actually owns it?

More than a century later, successive governments have failed to give an answer. The issue Lloyd George identified applies with just as much force to our system of business rates today.

The fundamental flaw with business rates is that companies pay according to how much their property is worth, actively deterring businesses from improving their premises. Investing in new machinery or buying solar panels for one's roof increases a property's value and, with it, its tax burden. Meanwhile, the speculative landowner delaying development until prices rise keeps his tax bill down.

In other words, the state punishes businesses that improve their productivity and make the most of their buildings and labour, whilst rewarding those who leave their plots unoccupied, derelict or empty. This is without mentioning a hugely delayed rates revaluation that has hit – and in some cases sunk – businesses with unsustainable tax increases and meant that business rates have not accurately reflected changing economic circumstances.

At a time when productivity growth is chronically weak, and high streets struggle to adapt to the rise of online retail, we can no longer allow business rates to hold us back. They must be abolished and replaced with a land value tax.

A new tax on commercial land would help bring about the regional rebalancing that is so badly needed in Britain and remove a major barrier to investment

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But while the theoretical case for taxing land is convincing, the practical detail has so far been lacking. That is why Andrew Dixon, founder of the Liberal Democrat Business and Entrepreneurs Network, and a team of experts have put together a report – *Taxing Land, Not Investment* – showing how a new tax on commercial land values could be phased in. Liberal Democrat members will be asked to vote on the proposals at our conference later this month.

So far, the report has been welcomed by trade bodies and think tanks including the manufacturers' organisation EEF, the Internet Services Providers' Association, UKHospitality, the Institute for Public Policy Research, the Entrepreneurs Network and the Institute of Economic Affairs. The Entrepreneur's Network called it "exactly the sort of policy entrepreneurs need to thrive" while the EEF said it was "a strong addition to the debate on the future of business rates and property taxation".

Our new Commercial Landowner Levy (CLL) would charge commercial landowners an annual tax worth around 3% of the value of the land they own, encouraging them to make the best use of it. Land deliberately not built on in the public interest, such as farms, forests, parks, roads and religious grounds, would be exempt from our proposals.

Those sectors of the economy that invest most in their premises – including the manufacturing, technology and renewable energy industries – would benefit most from our proposals. But the policy would also be hugely redistributive, reducing tax for businesses in our poorest regions. Businesses in around 92% of English local authorities would pay lower taxes than at the moment, and the average business in Oldham, Blackburn, West Bromwich or Barrow would see its bill cut by over 25%.

The bureaucratic burden of paying business rates every year for the half a million SMEs that currently rent their premises would be lifted. Instead the landowner would pay, passing the costs on to the tenant through higher rents. This would make the true cost of renting premises more transparent.

It's a win for the taxpayer and councils too. Our levy would be simpler and cheaper for councils to administer, due to fewer plots of land than rateable business premises. And while initially providing a much-needed tax cut for businesses, over time the levy is likely to raise more money than business rates, due to projected increases in the value of land as well as higher business investment and productivity growth. Central funding and redistribution between local authorities would be adjusted to ensure that councils are not left worse off by the change.

A new tax on commercial land would help bring about the regional rebalancing that is so badly needed in Britain. But it would also remove a major barrier to investment, boosting productivity and accelerating the UK's industrial revival.

By rewarding businesses for investing, we can truly make our land work for the people.