IPTI Xtracts

Property Tax and Assessment News from Around the World

UNITED KINGDOM– October 2018

SCOTLAND - Land Value Capture measures added to Planning (Scotland) Bill

Scottish Greens have welcomed changes to the **Scottish Government's** planning bill which they say will help tackle Scotland's housing crisis by making land for housebuilding more affordable, however housebuilders have called the measures "premature".

Housing spokesperson Andy Wightman MSP said the party has long campaigned for reform of the planning system, to counter the current set-up where the price of land rockets once it receives planning permission.

Holyrood's local government and communities committee, of which Mr Wightman is a member, yesterday agreed to amend the government's *Planning (Scotland) Bill* so that the amount councils pay to landowners in new "masterplan consent areas" is not inflated by the prospect of development.

Andy Wightman MSP said: "With average house prices seven and a half times the average salary we must take every opportunity we can to help people afford to buy or rent a home. Giving local councils the power to buy land at existing use value rather than the inflated value caused by planning permission is an important tool in the box.

"A classic example is the Waterfront in Edinburgh where there are swathes of vacant land that have been allocated for housing for years. Developers have been biding their time while the land value rises and the city's housing crisis worsens.
This land should be available for the council to buy at its current value so it can get on with the job of building affordable housing for ownership and rent."

The **Scottish Conservatives**, who brought forward the amendment, said the Land Value Capture will enable local authorities to significantly increase their ability to build more communities.

IPTI Xtracts- The items included in IPTI Xtracts have been extracted from published information. IPTI accepts no responsibility for the accuracy of the information or any opinions expressed in the articles.

Land Value Capture enables local authorities to benefit from the increase in value of land through planning permission. Usually, when a plot of land is granted planning permission, its value increases substantially. Land Value Capture is a way of making sure that more of this increase in value is used for the benefit of the community.

The amendment, moved by **Graham Simpson, Scottish Conservative housing spokesman**, sets out that where a planning authority establishes a Simplified Development Zone, it may include provision for compulsory purchase.

The amendment sets out the practicalities of this approach, how the purchase price is to be fixed, and requires ministers to set out the rest of the detail about the process by regulations.

Alexander Stewart MSP and **Monica Lennon MSP** as well as Andy Wightman MSP supported the amendment.
Graham Simpson MSP said: “The inclusion of land value capture in this bill will enable councils to invest the money gained through their decisions to grant planning permission on affordable housing, new roads and better infrastructure.

“Importantly, this amendment also ensures that compensation is payable to those whose land is purchased.

“I believe that this amendment will help transform the landscape of residential and economic development in Scotland.
“Most crucially, this will enable more houses to be built, more communities to be created and more people will have more opportunity to own their own home.”

However trade body **Homes for Scotland** said the “premature” move to include a ‘land value capture’ measure is unlikely to swell council funds.

Responding to the vote, **Homes for Scotland director of planning, Tammy Swift-Adams**, said: “Land Value Capture is a topical subject with broad political support but, unfortunately, this amendment is a premature and poorly thought through way of trying to achieve it.

“Whilst it has been clear since Stage 1 of the Bill that the opposition parties were keen to use the Planning Bill to get the words ‘land value capture’ into legislation, it is disappointing they’ve done it in a way which seeks to disadvantage one set of landowners over others - as the proposed approach will only affect people whose land will, at some stage in the future, be designated by a council as a ‘Masterplan Consent Area’.

“It is also somewhat misleading since the compensation landowners get when land is compulsorily purchased is usually much lower than the full market value they’d have got from developing it or securing planning permission themselves. So the additional cash being anticipated for affordable housing etc isn’t likely to add up to as much as supporters might be hoping. In fact, the amendment could mean some people getting more compensation than would otherwise have been the case.

“There is every chance that the Scottish Land Commission, which is currently exploring options for Land Value Capture will, in time, conclude that changing compensation arrangements would be counterproductive. This amendment is blind to that possibility and undermines the evidence-based, inclusive approach being undertaken by the Commission, which itself is clear that Land Value Capture is a concept rather than a specific policy measure and is probably going to be best achieved in different ways in different locations and circumstances.

“In any case, a form of Land Value Capture is already in place in Scotland. The country’s home builders alone contribute over £80 million pounds worth of “planning obligations” each year in relation to affordable housing, school places and other infrastructure – all of which already comes off the value of land.

“Furthermore, councils already have access to compulsory purchase powers, which they have successfully used to help deliver development, including social housing. Making those powers more complex won’t encourage their further and more wide spread use.

“Today’s amendment has the unfortunate hallmarks of making law for the sake of it, not because it is genuinely expected to help deliver more homes for the people of Scotland.”

The committee also agreed an amendment from Mr Wightman which means that changing a property from a person’s home to a short-term let will require full planning consent based on clear criteria. Local councils would determine such applications on the basis of local policy, and the changes would not affect homeowners or occupiers who only rent out a room.

IPTI Xtracts- The items included in IPTI Xtracts have been extracted from published information. IPTI accepts no responsibility for the accuracy of the information or any opinions expressed in the articles.

Mr Wightman added: “We also know that the uncontrolled and rapid rise in short-term lets in our cities and our rural communities is depriving families and individuals of badly-needed long-term homes. I am pleased that the minister has agreed to discuss this matter further as the Bill progresses through Parliament.”

Britain's top 10 inheritance tax hotspots revealed: Guildford tops the list as IHT receipts hit record highs

Guildford in Surrey has been named the inheritance tax (IHT) capital of Britain, according to data from Direct Line.

The town in the South East saw 658 estates incur an average liability of £231,003 in the 2015/16 tax year, according to data Direct Line obtained with a Freedom of Information (FOI) request to HM Revenue & Customs.

In total estates in Guildford paid £152 million in IHT to the tax man. However, it was not the highest paying area.

That dubious distinction goes to South West London, which saw 655 estates with an average liability of £346,565 pay out £227 million to HMRC in 2015/16.

IHT bills in other parts of the UK pale in comparison. Wigan paid just £6 million, Inverness £5 million, and Motherwell and Falkirk just £4 million each.

The highest average bill was paid by estates in West London, at £390,678.

Jane Morgan, business manager at Direct Line Life Insurance, comments: “Brits pay billions of pounds in inheritance tax each year with large variations across the country, often due to differences in property values.

“If you are concerned about the amount of tax that may be payable on your estate when the time comes, you could seek independent advice and investigate transferring money to beneficiaries early as a gift or placing assets into trust to reduce your liabilities.”

George Hodgson, chief executive of STEP (a professional association for practitioners who specialise in family inheritance and succession planning), adds: “Rising property values mean that growing numbers of families need to think about inheritance tax and how this might affect them.

“Good advice from estate planning expert is essential, since there are some simple steps you can take to both minimise your tax bill and make it easier for your family to fund any tax due.”

See the table below for the top 10 IHT hotspots in the UK:

Postcode area	Number of estates paying inheritance tax	Tax liability (m)	Average tax liability per estate
Guildford	658	£152	£231,003
South West London	655	£227	£346,565
Brighton	585	£92	£157,436
Kingston upon Thames	582	£123	£211,340
North London	502	£119	£237,052
Tunbridge Wells	493	£100	£202,840
Redhill	434	£80	£183,180
Reading	413	£75	£181,356
North West London	401	£153	£381,546
Bristol	396	£56	£140,404

Source: Direct Line, October 2018

HMRC raking in death duties

IPTI Xtracts- The items included in IPTI Xtracts have been extracted from published information. IPTI accepts no responsibility for the accuracy of the information or any opinions expressed in the articles.

According to figures from the Office for Budget Responsibility (OBR) HMRC raked in £2.8 billion in inheritance tax in the first six months of the 2018/19 tax year.

This puts the IHT receipts on course for a new record high. The OBR estimates this tax year will see a record £5.4 billion for the government, up from £5.3 billion in 2017/18.

The Chancellor is facing increasing calls to reform the tax, which many see as unfair.

A review by the Office of Tax Simplification (OTS), ordered by Philip Hammond, is set to publish its results in the coming days which may colour potential changes to in his Autumn Budget.

Sean McCann, chartered financial planner at NFU Mutual, comments: “The OTS report on inheritance tax is imminent and it’s likely the Chancellor will want the recommendations to be part of his Budget considerations.

“Inheritance tax is deeply unpopular and fiendishly complicated. Recent changes have just added to the problem and in many instances the complexity of the rules means that families are missing out. These numbers show people are passing on more and more to the taxman rather than their loved ones.”

The threshold for inheritance tax has not moved since 2009. It kicks in on any estate worth more than £325,000, after which the value is taxed at 40%.

Since the threshold has not moved in a decade, every year more and more people are affected as average estate values rise.

Local government finance settlement date confirmed in government response to Hudson review

Local authorities will have more certainty to plan their budgets as government confirms it will aim for set dates each year.
Published 24 October 2018
From:
Ministry of Housing, Communities & Local Government and Rishi Sunak MP
Local authorities will have more certainty to plan their budgets as government confirms it will aim for set dates each year for the provisional and final local government finance settlements, the Minister for Local Government Rishi Sunak MP confirmed today (24 October 2018).

The minister outlined the move in a response to an independent review into the department’s oversight of the business rates system.

The review, led by former Director General at HM Treasury Andrew Hudson, found the department has managed the increasing complexity of the business rates and associated systems well, but its processes for managing the local government finance system should be strengthened further. This is in anticipation of future challenges from the forthcoming Fair Funding Review, the 2019 Spending Review and the changes to business rates and their retention by local authorities.

The review also found the timetable for announcing both the provisional and final local government settlements has over the past few years moved to later in the year, allowing less time for scrutiny and for local authorities to set their budgets. It recommended that future provisional settlements be on or around the 5 December and the final settlement no later than the 31 January.

In a letter to the Chair of the Housing Select Committee, the Minister for Local Government Rishi Sunak MP confirmed the department will accept all of Andrew Hudson’s recommendations and outlined the department is aiming to publish the provisional settlement for 2019 to 2020 on Thursday 6 December 2018. The letter also outlines the need to make sure each year that the settlement timetable aligns with fiscal events and Spending Reviews.

See the full report and letter to Clive Betts MP.

Minister for Local Government Rishi Sunak MP said:

I thank Andrew Hudson for carrying out this thorough review. We accept his recommendations, and have already taken steps to ensure their implementation.
We recognise taking a more planned approach towards the provisional local government finance settlement in future will be fundamental to ensuring local authorities are given more certainty, and the time and space to consider their financial positions for the coming year.
With this in mind we will aim to publish the provisional and final settlements on or around the same dates every year from this December.
As part of the review's recommendations the department confirmed it is working with local government to design reform to business rates retention to make it simpler and this work will continue to be overseen by the joint MHCLG and Local Government Steering Group
Further information
Andrew Hudson's review was commissioned by the department's former Secretary of State the Rt Hon Sajid Javid MP in April 2018 in response to a data error which gave an overpayment of £36 million to local authorities at the provisional settlement for local government in December 2017.

The review was built on the principles set out in the Macpherson review of 2013 of the internal processes and procedures which underpin MHCLG overseeing the business rates system, including policy decision-making and analysis and modelling.

Retailers to be slapped with another £186m business rates rise in April

Retailers are set to be slapped with a further business rates hike of over £180 million next April after today's Consumer Price Index (CPI) measure of inflation dropped to 2.4 per cent.

The controversial business rates system, which has been hammering the retail industry over the past year and has been cited as one of the key reasons for its current woes, is calculated every April based on the CPI of the previous September.

Today the Office for National Statistics (ONS) said the CPI fell from 2.7 per cent in August to 2.4 per cent throughout September.

In the third consecutive year that business rates will be calculated under the widely criticised revaluation system, the gross business rates bill for 2019/2020 will increase £728.20 million.

According to real estate advisor Altus Group, £186.45 million of that will be taken on by the already embattled retail industry.

Businesses in London will once again be hardest hit, shouldering £233.98 million of the gross increase, while the South East will also see a £108.62 million increase, nearly double the £57.4 million increase seen in the South West.

The industry's leading voices have been heavily critical of the system since its introduction.

This morning shadow business secretary Rebecca Long-Bailey called on Chancellor Philip Hammond to reform business rates in his upcoming Autumn Budget, stating that business rates were a "root cause" for the 100,000 retail redundancies seen over the past three years.

Head of the British Retail Consortium (BRC) Helen Dickinson added: "These figures confirm that the retail industry, which is under significant pressure from public policy and a consumer and technology-led transformation, will face yet another eye-watering rise in business rates next April.

"The burden of the current business rates system, which is in urgent need of reform, is leading to store closures and hindering the successful reinvention of the retail industry.

"Ministers need to act to address this £180 million increase in retailers' already unsustainable business rates bill, along with other public policy burdens which retailers are struggling to absorb the cost of.

IPTI Xtracts- The items included in IPTI Xtracts have been extracted from published information. IPTI accepts no responsibility for the accuracy of the information or any opinions expressed in the articles.

"We need a freeze in the business rates multiplier until the next revaluation to help save shops, protect jobs, and future-proof retail, and to give the Government time to work with industry to reform the business tax system and make it fit for purpose in the 21st century."

Furthermore, Altus Group's head of business rates Robert Hayton urged the Chancellor to freeze the rates, stating: "Businesses, until this year, have had to endure annual increases at the higher discredited RPI measure.

"Since 2010, the average rates bill has risen by a fifth through the compound effect of inflation. Our high streets are engulfed in crisis. Brexit uncertainty is hurting both manufacturers and the services industries. It is time for the Chancellor to take a step back and support business through an unprecedented stimulus by freezing rate rises next April."

Experts call for an end to imprisonment for council tax debt

English councils are being urged to end the use of imprisonment for the non-payment of council tax.

The national free debt advice provider PayPlan and the Institute of Money Advisers (IMA) are writing to leaders of local authorities in England and Wales to ask for their support in reviewing the policy.

Between 2011/12 and 2017/18, the number of people contacting Citizens Advice with council tax debts rose from 168,000 to 217,000. Court action was taken against 4,800 people for non-payment.

The average debt level of people subject to committal action in court in 2016/17 was just £2,213. This figure is below the level for which the law allows bankruptcy to be considered.

In January 2018, the High Court announced that up to 17 people in England and Wales were unlawfully sent to prison in 2017 for council tax arrears.

The Welsh government is currently reviewing the responses to its consultation on banning the use of imprisonment for the non-payment of council tax.

'Local authorities absolutely need to ensure that council tax is collected effectively, and our report is not arguing against this,' said Alistair Chisholm, head of advice sector policy and partnerships at PayPlan.

'However, collection needs to be proportionate and fair. We believe that those struggling with debt should not feel they are unfairly grouped together with criminals.

'Debt is a complex issue and we urge local authorities to reconsider how they collect council tax arrears. Reviewing this policy has helped Welsh councils to work closely with advice agencies and those members of their communities that are struggling financially.'

Council tax and stamp duty could be scrapped for new 'fairer' levy

Council tax should be scrapped because it contributes to wealth inequality, according to a new report.

Radical plans, suggested by the Institute for Public Policy Research, would replace the 'regressive' tax and stamp duty with a levy based on the value of people's homes. The report claimed housing is currently 'under taxed' compared to other assets, leaving those who don't own a home worse off.

IPTI Xtracts- The items included in IPTI Xtracts have been extracted from published information. IPTI accepts no responsibility for the accuracy of the information or any opinions expressed in the articles.

The IPPR say if the new property tax was set at 0.5%, it would raise at least as much as current council taxes. A property tax rate at that level would mean an annual tax bill of £1,243 for the owner of an averagely priced UK home valued at £248,611.

A higher rate would be needed to replace the revenue currently raised from the stamp duty paid by people buying a home. The IPPR argue that the change, alongside a package of other proposed measures, could help to tackle wealth inequality in the UK.

Carys Roberts, senior economist at IPPR, said: ‘Council tax is a regressive tax as it falls disproportionately on those with lower incomes and wealth.

‘It’s also outdated, as it’s based on valuations that have not been updated since 1992. ‘A new property tax would be far more progressive, and would effectively capture increases in house prices in a way the current system does not.’

Property owners have seen their wealth and income grow, while rising numbers are locked out of home ownership and must pay increasingly high rents, according to the IPPR. It said since 1997, average house prices have increased four times faster than average full-time earnings.

A property tax would capture some of these financial gains, while also dampening future house price inflation, it argued. There could be some local discretion to vary the tax and a homeowner with a high-value property but low income could defer payment until their property is either sold, or left on death as part of their estate, the IPPR said

Think-tank proposes radical council tax replacement

An annual levy based on the up-to-date value of a property should replace council tax and stamp duty, a think-tank has urged.

The tax would raise an additional £1.6bn more per year across Great Britain compared to the current system, the IPPR said, in a paper released yesterday.

If a property tax of 0.5% on the actual present-day value of a home was levied it would also help even out wealth distribution across the country, the think-tank suggested.

Council tax in England is currently paid according to bands and using 1991 property values.

The IPPR said its tax proposal would “be far more progressive than council tax and would effectively capture increases in house price in a way in which the current system does not”.

It added: “The new tax we propose would therefore act as both a property tax and a tax on consumption”.

Over time the 0.5% percentage charged on a property would be increased, the think-tank suggested, which would allow the reduction of stamp duty land tax, which would eventually be phased out altogether.

The IPPR said that its “radical plan” would also help to ensure a more even distribution of wealth through the UK.

“The vast majority of households would benefit from the tax change, and for those in the bottom half of the income distribution, incomes would rise,” the report stated.

Currently, wealth is twice as unequally distributed as income, with the top 10% of households owning 44% of wealth while the bottom 50% own just 9%, the think-tank said.

Carys Roberts, senior economist at IPPR and co-author of the report, said: “The UK is a wealthy nation but that wealth is very unevenly distributed, which has negative implications for both economic prosperity and justice.”

The report also said that the new property tax would be levied on landlords and not directly on tenants.

IPTI Xtracts- The items included in IPTI Xtracts have been extracted from published information. IPTI accepts no responsibility for the accuracy of the information or any opinions expressed in the articles.

Although it recognised this could end up being “passed on to tenants in the form of higher rents”, it said that along with the “simultaneous abolition of council tax – which is usually paid by the tenant – would help to ensure that the disposable income of tenant households was not negatively affected”.

The report pointed out that since 1997 average house prices have increased four times faster than average full-time earnings. The IPPR would dampen future house price inflation, the think-tank suggested.

Roberts called the current system of council tax “regressive” and “outdated” and suggested IPPR’s proposals would “effectively capture increases in house prices in a way that the current system does not.”

The IPPR said that currently housing is undertaxed relative to other assets, distorting investment behaviour and contributing to growing wealth inequality between homeowners and non-homeowners.

It also said that the current system failed to yield all the revenue possible for public services due to avoidance.

A Liberal Democrat report previously suggested replacing the current business rates system with a land value tax.

May plans to hike UK property tax for foreign buyers

Britain's high-end and luxury home builders face a squeeze as Prime Minister Theresa May prepares to impose higher taxes on foreigners looking to buy properties in the UK.

Overseas buyers account for roughly half of all residential transactions in central London, according to Faisal Durrani, head of research at property consultants Cluttons.

UK developers are already grappling with sluggish demand amid the nation's messy divorce from Europe, a cooling property market and prospects of higher interest rates. The capital's stock of unsold homes under construction is at a record, and shares of home builders such as Crest Nicholson Holdings Plc and Berkeley Group Holdings Plc have slumped this year.

"Further taxes on international buyers sends out a conflicting message about post-Brexit Britain being 'open' to the world," Durrani said. "We will have to revisit our residential forecasts with a view to making further downward revisions, should the international residential surcharge be confirmed."

Unveiling its policy plans as the Conservative Party conference began on Sunday, the government said it will begin consultations to increase the stamp duty on individuals and companies not paying tax in the UK. Ministers are considering a rate ranging from 1 per cent to 3 per cent, according to the Sunday Telegraph newspaper.

"We are going to consult on the figure but around 1 per cent, we are going to consult to see if that's the right figure," Brandon Lewis, Conservative Party chairman, said Sunday on Sky News.

The move is likely to add to pressure on the country's property market. Bank of England governor Mark Carney told senior government ministers earlier this month that a no-deal Brexit could see house prices plummet by more than 35 per cent, according to people with knowledge of the matter.

The UK's imminent departure from the world's biggest trading bloc is already weighing on property values in London, where house prices posted their biggest decline in almost a decade in July. The average residential property in the capital cost 485,000 pounds ($632,004), the Office for National Statistics said last week. Nationally, growth slowed to the weakest pace since August 2013.

"We are very concerned about the impact that foreign buyers have on the housing market and the impact they have on people who are living here and trying to get into the housing market," May said on the BBC's Andrew Marr Show on Sunday. "The evidence is that foreign buyers coming in pushes house prices up and lowers home ownership here."

May is facing pressure over her leadership, and the Tory conference comes a week after the opposition Labour Party announced a series of policies to try to rejuvenate struggling parts of the country, including a house building program. The

IPTI Xtracts- The items included in IPTI Xtracts have been extracted from published information. IPTI accepts no responsibility for the accuracy of the information or any opinions expressed in the articles.

government said the stamp duty increase would make homes more affordable for British residents and that money raised would be used to help the homeless.

"This policy, with its uncomfortable echoes of blaming foreigners for every ill, may make good headlines, but it sends an uncomfortable message to the rest of the world and will do nothing to create more homes for those unable to buy or to rent today," said Henry Pryor, a UK-based luxury real estate broker

Business rates: one John Lewis store will pay four times the tax of Amazon

The £4.5m tax Amazon pays in Britain will be dwarfed by the rates for a single department store after huge hikes in April

John Lewis, the embattled retailer whose profits collapsed by 99% in the six months to July, will be charged £10.5m in business rates for its flagship Oxford Street shop from April, according to new figures — a 60% rise in three years.

A short walk away, Selfridges' flagship shop also faces a 60% hike: its business rates bill will climb to £17.5m. That figure is almost four times the total UK corporation tax paid last year by the online retail giant Amazon: just £4.5m.

The looming threat to the high street will put pressure on the chancellor, Philip Hammond, to throw businesses a lifeline when he delivers his budget on October 29.

This weekend, Helen Dickinson, the chief executive of the British Retail Consortium (BRC), said: "These figures lay bare the shocking burden the business rates regime places on British retailers, who make up 5% of the economy and pay 25% of business rates — £7bn a year. The rates bill is leading to store closures, preventing the reinvention of our high streets, and is damaging communities the length and breadth of the UK."

The BRC is lobbying for a two-year freeze in business rates until a revaluation in 2021, while the New West End Company, which represents businesses in London's West End, is lobbying for a rates reduction of £5bn. This would be financed by a 1% tax on online businesses but would not apply to traditional retailers' internet sales.

High street trading has been squeezed by online shopping, which now accounts for 18.2% of the market, with fewer stores surviving to shoulder the rates burden.

A phased four-year settlement in 2017 will bite hardest from April, with some stores facing huge increases. Burberry, which this month unveiled a new collection, faces a hike for its London headquarters of 186% compared with its rates in 2016-17.

In Manchester, Zara must pay £1.26m and Manchester City football club £2.4m, up from £1.7m in 2016-17.

Altus Group, the property adviser that researched the figures, found NHS hospitals will have to pay £386m and council-controlled state schools £957m.

Nickie Aiken, the Conservative leader of Westminster council, said: "Our taxes should reflect our way of life. I would ask the Treasury: do we want to continue the decline so that the only things left on the high street are charity shops and betting shops?"

Wealth inequality is skyrocketing and the housing market is out of control. It's time to tax the land.

Luke Murphy writes that 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

The UK economy is not working for everyone. As IPPR's Commission on Economic Justice landmark report found, the UK's economy is failing to produce sustainable prosperity for all its citizens. A key driver of this failure is land.

IPTI Xtracts- The items included in IPTI Xtracts have been extracted from published information. IPTI accepts no responsibility for the accuracy of the information or any opinions expressed in the articles.

Land has long been regarded as a unique factor of production – alongside capital and labour – on the basis that economic activity requires all three. Because of land's unique characteristics – it is immovable and fixed in supply – an increase in demand for land tends to drive an increase in its price rather than in its supply, unlike other forms of capital. This means there is a much greater propensity for the price of land to rise through no effort on the part of the individual who owns it. Landowners are therefore much more likely than owners of other types of capital to benefit from what is called 'an economic rent' – a financial return that they did not earn.

Classical economists such as David Ricardo, John Stuart Mill and Adam Smith recognised this, and that highly concentrated landownership leads to rentier behaviour and a whole host of economic and social problems. But it is a lesson we appear to have forgotten.

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, equipment, and all other non-financial assets in the UK – combined. In 1995, the value of land held by households, largely which is beneath people's homes, made up a fifth (£600bn) of UK households' net wealth. Today, it has risen had risen to over two-fifths.

However the wealth held in land is unequally held across the country. 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. The total value of housing stock in London is now greater than the housing stock of all of Wales, Scotland, Northern Ireland and the North combined. But the vast majority of housing wealth – 70 per cent – is held not in the property itself, but in the land that lies underneath.

The soaring cost of land is also a driving force behind England's broken housing market. In 1995, the price paid for a home was almost evenly split between the value of the land and the property, but today it has risen to over 70 per cent. Since the most significant cost involved in building a new home is the land it sits on, the price of a new home is driven by the cost of land, and the high cost of land makes it more expensive, difficult and risky to build homes at affordable prices. This then reduces the rate at which new homes are built.

Land also plays a key role in the UK's woefully poor productivity. Due to the excessive returns that can be gained from land, banks now direct far more of their lending to real-estate loans (over 78 per cent of all loans to non-financial UK residents). The sheer scale of the credit directed at land and property has driven up the price of land, rather than increasing the productive capacity of the economy, or raising wages or GDP growth.

To tackle these issues, we need to get serious about tackling the underlying causes, and one of the ways to do that is through a land value tax. Taxes on land have long been favoured by economists. Because it is fixed in supply and hard to avoid, it – and the economic rents it earns – can be taxed without distorting behaviour. However, the main taxes on property and land in the UK – council tax, stamp duty land tax (SDLT) and the national non-domestic rate (business rates) – are abjectly inadequate to the task.

Council tax is highly regressive and is still calculated on the estimated value of homes in 1991, leaving those whose homes have gained most in value since then significantly under-taxed. Business rates do not apply to undeveloped land, creating significant distortions in the incentives to hold and develop land. Stamp duty adds undesirable friction to the property market and makes home ownership more expensive, especially for those on low incomes. None of these taxes adequately capture increases in land values, including those which occur when planning permission is granted.

A land value tax is based on two principles. It taxes the value of land, not the property standing on it. And the value of the land is calculated based on its 'optimum use' under existing planning permission, not its current use. These principles confer several advantages over the taxation of property, such as our current business rates. By taxing undeveloped land based on its use value, it penalises those who hold land without developing it, and incentivises development.

IPPR has argued that the government should introduce a land value tax to replace business rates. 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. It would also help rebalance the economy geographically, making disadvantaged regions with lower land values more attractive locations in which to do business. Introducing a land value tax for commercial land offers offers particular benefits because the value of a property is excluded from the valuation of the land, it does not penalise those businesses which improve their properties, as business rates do today.

IPTI Xtracts- The items included in IPTI Xtracts have been extracted from published information. IPTI accepts no responsibility for the accuracy of the information or any opinions expressed in the articles.

We have also argued that the government should consider replacing council tax, and eventually stamp duty, with an annual property tax which would be far more progressive than council tax. It would also effectively capture increases in land values and house prices in a way the current system does not.

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. A land value tax, and a more progressive domestic property tax are essential to securing an economy that produces sustainable prosperity for everyone.

Luke Murphy is the author of 'The Invisible Land: The hidden force driving the UK's unequal economy and broken housing market' and is an Associate Director at IPPR.

IPTI Xtracts- The items included in IPTI Xtracts have been extracted from published information. IPTI accepts no responsibility for the accuracy of the information or any opinions expressed in the articles.