



**Glasgow City Council**

**Local Taxation Working Group**

**Report by Executive Director of Financial Services**

**Contact: Duncan Black ext. 75343**

**Consideration and assessment of local taxation model: land value tax**

**Purpose of report:**

To provide the Local Taxation Working Group ('the working group') with a summary of land value tax as a model for local taxation. This summary has been prepared using the scope, approach and assessment criteria previously agreed by the working group.

**Recommendations:**

It is recommended that the working group:

- notes the content of the report, including the summary of the local taxation model and issues identified;
- notes the risk assessment of the model;
- considers any potential follow up questions for Council officers and external specialists; and
- approves a pilot exercise to assess the potential impact of a land value tax on a specific area within Glasgow.

Ward No(s):

Citywide:

Local member(s) advised: Yes  No  Consulted: Yes  No

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## **1. Executive summary**

- 1.1 This report provides a summary of land value tax ('LVT') as a model for local taxation and an assessment against the working group's approved evaluation criteria.
- 1.2 LVT is supported by a number of economists and policy and pressure groups, who refer to persuasive theoretical and macro-economic benefits of LVT. However, the absence of LVT experience within the UK means that it is particularly difficult to assess the practicalities of LVT and to pinpoint the exact LVT scheme that should be considered and assessed.
- 1.3 Nevertheless, Council officers have considered the practical implications of LVT in principle and no insurmountable issues have yet been identified, albeit in the absence of an in-depth pilot or study. There are, however, a number of unknowns and potential difficulties that would have to be properly considered before LVT could fully replace any existing tax system.
- 1.4 It is therefore recommended that the working group approves a pilot study of the potential impact of LVT on a designated area of Glasgow, with a view to exploring further the practical implications of LVT.
- 1.5 LVT potentially holds a number of key benefits:
  - LVT would be arguably more progressive than the existing council tax;
  - existing systems, controls and valuation expertise could be translated for use in a LVT regime, reducing the operational burden of change on the Council;
  - LVT brings numerous macro-economic and behavioural benefits, whilst supporting the environment agenda;
  - regular land revaluations would be relatively easy to carry out, contributing to the fairness of the tax further;
  - LVT is relatively buoyant whilst retaining the balance of stability and predictability; and
  - from a sustainability perspective, LVT has a constant tax base, incentives to best-use available land and helps prevent urban sprawl and land banking. Public investment could also be essentially locally-funded over time.
- 1.6 A wholesale change to LVT would, however, be high risk if it were not phased in and preceded by detailed testing and pilot studies. Furthermore, depending on the nature of the LVT introduced, additional parallel reform may be required to address concerns with existing taxation arrangements, including:
  - water charging issues (the ability of low income households to pay and local authority collection arrangements); and
  - take up of council tax benefit (which would have to be addressed in any LVT rebate scheme).

- 1.7 There would have to be effective public liaison and education to ensure support for LVT and the treatment of agricultural land would have to be considered as part of a wider discussion on the possible replacement of NNDR (and the subsequent impact on businesses).
- 1.8 From a local democratic accountability perspective, the impact of LVT would depend on the nature of reform. For example, a nationally set LVT would remove local accountability, whilst at the same time potentially falling foul of legal objections. However, a locally set LVT would likely require central government equalisation, with a risk that favourable macro-economic benefits of LVT are distorted and the continuation of existing gearing issues.
- 1.9 LVT should therefore not be discounted as an option for local taxation reform: it potentially holds many benefits and addresses many existing concerns with the council tax. Whilst there are a number of concerns with LVT, these often arise from the ambiguous and unfamiliar nature of the tax, coupled with the absence of UK empirical evidence and practical understanding. A series of pilot studies, with potential localised targeted LVT on derelict land, would be a sensible way forward. The suggested Glasgow pilot would be a valuable exercise for Glasgow and would help progress the LVT debate.

## **2. Background**

- 2.1 On 21 August 2008 the working group approved the scope of the review of local taxation models to be undertaken, the approach to the review (including an agreed set of criteria) and an outline timetable and agenda. In accordance with the agreed outline timetable and agenda, this report provides a summary of land value tax ('LVT') as a model for local taxation, including an appraisal against the approved criteria and a risk assessment.
- 2.2 There is considerable economic literature available on land value taxation, and many economists argue in favour of a LVT. This report will summarise the theoretical benefits and concerns of a LVT, but will also focus on the practical issues. Whilst empirical evidence of LVT in practice is limited, we have drawn on experience from UK pilot schemes, LVT used in other countries and the professional opinion of the Council's assessors and finance officers.
- 2.3 We have also referred to the findings of the Local Government Finance Review Committee's November 2006 publication, '*A Fairer Way*' (the 'Burt report') and Sir Michael Lyons's March 2007 report into local government funding ('the Lyons report').

## **3. Overview of land value taxation**

- 3.1 The economic argument for LVT is as follows. There is a fixed amount of land and natural resource. It therefore follows that this should be subject to taxation. Moreover, land is the definitive resource and most, if not all, activities are in some way dependent on it.
- 3.2 The overriding concept is to avoid taxing activities that are economically and socially desirable, and instead taxing owners of land. This prevents tax disincentives for activities, such as remunerated work, responsible development and regeneration.
- 3.3 LVT also ensures that land owners are taxed for the benefits that owning land gives them. For example, land owners will benefit from public investment in the region (such as new transport links, well performing schools etc), but currently this benefit is not taxed. In this way, public investment could eventually be repaid under LVT: public infrastructure would only be constructed where the benefits outweigh the costs and should therefore be financed by taxing those beneficiaries (in this case, the land owners).

### *Options for introducing LVT*

- 3.4 There are a number of approaches to LVT but the basic premise is to tax land owners using a set poundage, as applied to an assessed land value. The land valuation would, in turn, be based on the market value at optimum current permitted use, according to existing planning permissions. For domestic property, this would be its permitted residential use.

- 3.5 LVT could be set locally or nationally, and replace a large number of existing taxes or just be used as a supplementary tax. It can therefore be difficult to pin down benefits and concerns of LVT due to the variety of potential approaches.
- 3.6 A nationally set LVT would encounter similar problems to a nationally set local income tax<sup>1</sup>. For example, local democratic fiscal accountability would be largely removed and there could be legal issues to be overcome. On the other hand, a nationally set LVT would avoid potential macro-economic distortions: one of the beneficial outcomes of LVT would be to 'equalise' land values across the country – only a flat national rate would achieve this.
- 3.7 Similarly, a locally set LVT would ensure local democratic accountability is maintained, and possibly enhanced. However, this would also require central government intervention to equalise overall revenue streams across all local authority areas by adjusting central government funding. There is a danger that, in doing so some of the potential benefits of LVT are distorted.
- 3.8 LVT could be used to replace a large number of existing local and national taxes. This would satisfy the aim of many land value proponents in avoiding taxes on socio-economic activities that are desirable. However, this approach would obviously require significant overhaul of the UK tax system and is out with the scope of the working group.
- 3.9 Instead, LVT could be introduced at a local level, either supplementing existing tax regimes, or by replacing the council tax and / or non-domestic rates. A supplementary LVT would have the benefit of causing minimal disruption and there is potential for real benefits to Glasgow if a LVT was introduced on derelict / empty land (for example as part of the city's east end regeneration). A wholesale replacement of existing local taxes with LVT would be possible but would require significant preparatory work in terms of financial modelling and legislation.

*Valuation – a practitioner's view*

- 3.10 In theory, it is feasible to move to LVT relatively easily. Current property-based databases, systems and controls are in place and could be adapted for LVT purposes. There is also sufficient expertise within the assessor's team to create and maintain a land values register. The basic approach to valuing land is set out in table 1, below.

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<sup>1</sup> Refer to Local Taxation Working Group 25 November 2008 Item 3.

Table 1: Land valuation key steps

#	Description
1.	Identify scope of LVT and areas to be subject to LVT. Set 'tone date' for first valuation.
2.	Use recent land transactions to identify market value.
3.	Adjust market value, taking account of planning permissions, to identify 'market value at optimum current permitted use'. This kind of valuation is not dissimilar to existing valuations for compulsory purchase orders. <sup>2</sup>
4.	Where there is scarcity of recent land value transactions, refer to overall building and land valuations from property transactions and deduct building value element.
5.	For land with more than one owner (for example, blocks of flats) split land value pro rata, with possible adjustments for 'environmental factors' (for example, ground / top floor).
6.	Review assessed land values across local authority area to identify anomalies and ensure consistency. Use of 'land value maps' could assist in this overview.
7.	Issue valuation reports to all land owners. Possibility to show split of building, land and total values for clarity.
8.	Ensure sufficient literature is available to land owners on the valuation methodology, and ensure systems are in place to deal with appeals.
9.	Annually update register of land values using indices, manual revaluations and updates from the planning department.

3.11 We have therefore not identified any insurmountable problems from a practitioner's perspective in introducing a LVT. However, in order to gain a better understanding of the potential impact, it is proposed that the working group approves a pilot exercise to be carried out within a designated area of Glasgow. The pilot will incorporate the following activities:

- City Assessor and Executive Director for Development and Regeneration Services to identify a suitable area for the scope of the exercise, taking in as many types of land as possible;
- average existing council tax charges (gross of benefit) and none domestic rates to then be identified for each 'type' of property;
- applicable land values to be estimated for each 'type' of property, using the methodology outlined in table 1, above; and
- calculation undertaken to identify the required poundage in order to raise the same gross revenue with a view to identifying the potential impact.

The exercise will also be useful in identifying additional practical issues and concerns that may not yet have been identified. The exercise should be completed prior to the working group's final meeting in April 2009 and a paper will be prepared, summarising the key findings.

<sup>2</sup> There would be a need to consider geological and / or contamination issues in ascertaining land value.

3.12 It should be noted that written evidence to the Select Committee on Office of the Deputy Prime Minister (Housing, Planning, Local Government and the Regions), whilst recommending LVT, indicated that a national LVT would take ‘two parliaments’ to introduce and would require robust planning, testing and gradual reform.<sup>3</sup>

#### *Empirical evidence*

3.13 Oxfordshire County Council completed a LVT pilot study in February 2005 to assess the practicality of LVT and land values compared to the current system.<sup>4</sup> The conclusions of the study were as follows:

- valuations based on the undeveloped value of the land present no special problems to a professional valuer;
- the lack of definition of agricultural land at the present time would need addressing;
- the increasing availability of well developed GIS systems [Geographical Information Systems] and other IT developments have the potential to make property tax administration and land use planning easier and cheaper;
- the initial valuations would be no more expensive than, for instance, the planned revaluation of council tax. Thereafter the systems would be simpler and cheaper to maintain than those based on developed values;
- further consideration needs to be given to the choice of basis for valuation (that is capital or annual rental values)<sup>5</sup>;
- the shift in tax liability between different categories of property would probably need a period of phasing-in; and
- further study on the effect on levels of domestic tax if the high value business sites in central Oxford were included in a countywide LVT would be welcome.

3.14 LVT operates successfully in many other parts of the world (over 700 cities worldwide). For example, Denmark, Australia, New Zealand, South Africa and US State of Pennsylvania (Pittsburgh has similar socio-economic attributes to Glasgow with a population of over 300,000, historical reliance on traditional heavy industry, and recent significant socio-economic redevelopment). Many new East European accession states (and Russia) are also in the process of implementing LVT. However, comparisons to tax systems in other countries are not very scientific and may ignore other local factors, not least the nature of other tax regimes within those countries’ economies.

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<sup>3</sup> Memorandum by Tony Vickers (LGR 31) – written evidence to Select Committee on Office of the Deputy Prime Minister (Housing, Planning, Local Government and the Regions).

<sup>4</sup> The Oxfordshire Land Value Tax Study (February 2005).

<sup>5</sup> The method implied at paragraph 3.10 uses the valuation method considered by the Burt Committee.

- 3.15 The Council's Development and Regeneration Policy Development and Scrutiny Committee received a report on derelict land on 30 September 2008. The report noted that significant progress has been made in developing vacant and derelict land over the last 10 years (20% in Glasgow). However, Glasgow still accounts for around 1,200 hectares of vacant and derelict land (12% of the Scottish total) and 60% of Glasgow households live within 500 metres of a derelict site. The report also noted the negative impact this level of derelict land has on the city. The Council Plan, Economic Strategy, Community Plan, Local Development Strategies and City Plan 2 are collectively designed to address this issue and the 2008-11 Council Plan targets a 6% reduction in vacant derelict land.<sup>6</sup>
- 3.16 It therefore seems that, despite recent progress, development of derelict land in Glasgow will take many years. LVT may help to accelerate this process, even through a targeted supplementary scheme, and it is therefore recommended that a pilot study is carried out by the Assessor's office in conjunction with Development and Regeneration Services and Financial Services.
- 3.17 The Burt Report included consideration of LVT within its remit and concluded that, although LVT meets a number of the Burt Committee's criteria, it is difficult to understand and would require significant reform, in turn requiring pilot studies and time to implement. The Burt Report instead recommends a capital value tax, based on the market value of a property. This proposal will be the subject of the next report to the working group.<sup>7</sup>
- 3.18 The Lyons report supports a tax on empty and derelict land but falls short of recommending a LVT, instead proposing reform to existing empty property relief, along with additional reliefs to support the environment agenda:
- "Land value taxes have some clear theoretical advantages. Nevertheless, given that business rates already have some of the attributes of a land value tax, strong arguments would be needed to support a wholesale change. A consideration against the principles of a land value tax can help to suggest areas for reform and suggests that reform, rather than replacement, is the most pragmatic approach."*<sup>8</sup>
- 3.19 The Institute of Revenues and Rating Scottish Association concluded in their response to the Burt Committee that LVT did not support rating of vacant land sites, citing difficulties in valuation, adjudication and the likely insignificant financial yield in the context of total non-domestic rates revenues.
- 3.20 The Scottish Property Federation, in their response to the Scottish Government consultation 'A Fairer Local Tax', set out a number of objections to LVT as a form of local taxation, concluding that they could not support LVT. A main objection was the potential impact on the business sector (assuming replacement of non-domestic rates).

<sup>6</sup> Glasgow City Council Development and Regeneration Services Policy Development and Scrutiny Committee 30 September 2008, Item 8.

<sup>7</sup> Local Government Finance Review Committee *A Fairer Way* 2006.

<sup>8</sup> Sir Michael Lyons *The Lyons Inquiry into Local Government* 2007.

### Key benefits and concerns

3.21 A summary of the key benefits and concerns with LVT that we have identified is provided in table 2, below.

Table 2: LVT benefits and concerns

Benefits	Concerns
Is likely to be more progressive and avoids ambiguous banding system that distorts relationship between tax liability and ability to pay.	Will likely still require a benefits system for those with very low incomes. Other options to address low income cases, such as deferment, can have cash flow implications.
Modelling provided by LVT proponents shows that the local tax liability would be more fairly distributed across existing council tax bands.	Modelling the potential impact of LVT on existing council tax payers assumes that existing council tax bands are robust. It is possible that due to absence of recent council tax revaluation there will be a high number of 'anomalies' in lower bands who will actually see an increase in liability.
Is desirable from a macro-economic, perspective and could generate positive financial, social and environmental outcomes. LVT offers increase focus on local amenities and the immediate local area around a piece of land, thus increasing concept of 'paying for local services'. Is arguably no more complex than the council tax.	LVT is untried in the UK and would require significant lead-in time.  Is not easy to understand and is potentially very difficult to 'sell' to the public. Could potentially be overcome through detailed survey certificates being provided to landowners, splitting out building and land values. Would also require a robust appeals system.
Existing local tax systems and skills bases are tailored to a local property tax. Moving to a land based tax would be relatively straightforward with little disruption to systems and personnel.	Does not address all issues with existing council tax arrangements (for example, water charging and benefit take-up). Is therefore likely to require parallel reform.
Once initial land valuation has been undertaken, should be relatively straightforward to regularly revalue using indices, Computer Aided Mass Appraisal ('CAMA') and local knowledge of planning regulations.	If regular revaluations are undertaken (for example, annually), then likely that land value will increase slightly each year, leading to steady increases in LVT liabilities for land owners. Therefore potential for regular reassessment of poundage rates, which if set locally could be onerous for local authorities setting robust annual revenue budgets.
Strikes a balance between buoyancy (insofar as regular revaluations reflect market conditions) and stability (in that land values are unlikely to swing significantly in any one region year to year).	May be difficult to set balanced budgets due to regular revaluations impacting revenues. Any 'equalisation' by central government may also distort macro-economic benefits of a LVT.

Benefits	Concerns
LVT decreases incentive to hold land speculatively, therefore will help to smooth 'peaks and troughs' in land values. This in turn will help to smooth 'peaks and troughs' in overall property prices. Statistics show that land prices 'swing' more significantly than property prices.	Impact on land values, and consequently property prices, may be skewed by any central government 'equalisation' that impacts local authority LVT rates.
Helps to ensure that beneficiaries of public spending (especially infrastructure spending) pay a tax for the benefits they receive. Thus, public spending is more self-funding and the costs are more fairly divided amongst the beneficiaries.	Again, any central government equalisation may skew this affect. Furthermore, a local LVT, which revenues belong solely to the local authority, would have to in some way be returned to any central government department or agency that funds or part funds any development.
Would help encourage responsible development of any rural and agricultural land. For example, currently agricultural land owners can expect to receive a large windfall from selling land to developers. LVT would discourage this through direct taxation and increased use of derelict and brown field sites.	Treatment of agricultural land in any LVT system would be a political decision and the potential impact on predominantly rural local authority areas would have to be considered as part of any equalisation package from central government.
Could be set locally to maintain local democratic accountability. Similarly, any supplementary LVT (to sit alongside existing tax regimes) would enhance existing accountability to the local electorate.	A nationally set LVT would remove local democratic accountability from local authorities. Moreover, even a locally set LVT may encounter accountability problems (for example, the land owners may not be eligible to vote in local elections where under the council tax, the tax payer will always be entitled to vote).
Would help address issue of urban sprawl and under use of derelict inner-city / urban land.	May be difficult to identify owners of land (for example small strips of urban land). This, in turn, may increase compulsory purchase orders, requiring additional local authority resource.
Land cannot be moved or hidden therefore LVT would be easy to tax and difficult to avoid.	May be more difficult to identify and locate land owners than property occupiers (who are currently the tax payers).
LVT operates successfully in many other parts of the world (over 700 cities worldwide). For example, Denmark, Australia, New Zealand, South Africa and US State of Pennsylvania (Pittsburgh has similar socio-economic attributes to	Comparisons of tax regimes between countries are not scientific and fail to account for other parallel tax systems that may exist alongside LVT. For example, many of these countries also have an element of property tax to

Benefits	Concerns
Glasgow). Many new East European accession states (and Russia) are in the process of implementing LVT.	'spread the tax burden'. <sup>9</sup> LVT is untried in the UK, with the exception of a few local pilot schemes.
LVT proponents argue that LVT cannot be simply passed on by land owners since tenants will only pay the market rate.	Land values and market rental rates may be impacted by international and external factors (for example, the current contraction of money markets). In turn, LVT would inevitably reflect an element of these external influences.

3.22 CIPFA noted in their presentation to the working group on 4 November 2008 that sustainability should be considered in assessing any local tax model. LVT can be regarded as a very sustainable tax insofar as the tax base is entirely constant and LVT in theory should reduce excessive economic swings, for example in the property market. LVT is also regarded as an environmentally sustainable tax in that it encourages the best use of available land and prevents 'urban sprawl'.

#### 4. Issues for consideration

4.1 This section provides an assessment of LVT against the agreed set of criteria.

4.2 The paper on existing council tax arrangements previously submitted to the working group identified a number of benefits and concerns as they related to the agreed set of criteria and principles. Appendix 1 provides a summary of these issues and how they could be impacted by LVT as outlined in section 3.

4.3 Appendix 1 indicates that LVT would address some of the concerns with the existing council tax, with potential to score well against most of the assessment criteria. However, there would potentially be a requirement for parallel reform to address other issues identified with the current system. For example:

- there would likely still be a requirement for a rebates or benefits system. Given the current take up problems<sup>10</sup> and the changes LVT would imply, significant reform would be required of existing council tax benefit systems;
- some proponents of LVT propose a deferred payment option in addition to, or in place of, a benefits system. This would require robust planning and modelling to ensure the Council was prepared administratively, and in terms of cash flow monitoring; and

<sup>9</sup> Sir Michael Lyons *The Lyons Inquiry into Local Government* 2007.

<sup>10</sup> Refer to Local Taxation Working Group 4 November 2008 Item 2.

- issues identified with existing water charging arrangements may still need to be addressed. There could be scope to incorporate water charging within a LVT (that is, an element of the poundage assigned to fund water services). Alternatively, separate and parallel water charging reform would be required<sup>11</sup>.
- 4.4 There are also potential concerns relating to local democratic accountability, depending on the type of LVT being introduced. Should a nationally set LVT be implemented, then this would remove local democratic accountability from local authorities, in a similar way to a nationally set local income tax<sup>12</sup>. A locally set LVT would avoid local democratic accountability issues but would potentially require central government equalisation and may not be as effective in smoothing land values at a national level (one of the key benefits identified with LVT).

## 5. Risk assessment

- 5.1 There are significant strategic and operational risks identified with a move to LVT. Strategically, appendix 1 shows that some of the key concerns with existing council tax arrangements may not be satisfactorily resolved through LVT alone. Operationally, there would be upheaval across local and central government. The extent and significance of this change would depend on the nature and scope of LVT being introduced. Council tax payers (and potentially non-domestic rate payers) would also face significant changes to the calculation of their tax liability, and likely their tax liability itself.
- 5.2 Proponents of LVT acknowledge the significance of the changes that would be required and therefore suggest a series of pilot studies, followed by gradual reform over the course of at least two parliaments. This would indeed reduce the strategic and operational risk exposure, but in turn result in further delay in addressing existing concerns with the council tax.
- 5.3 Should Scotland decide to replace the council tax with LVT, then consideration would have to be given as to Scotland's continued receipt of council tax benefit subsidy income (equivalent to around £400 million per annum) There would also then be no taxation of property development (with the exception of VAT). The Lyons Report suggests that this would place a heavy burden on land as a tax base and that some element of property taxation should remain in the overall 'basket of taxes'.<sup>13</sup>
- 5.4 From a legal perspective, there is a growing consensus that a nationally set local tax (albeit in relation to local income tax) contravenes EU legislation and charters. This could also be said of a nationally set LVT. There is also uncertainty as to whether the Scottish Parliament is legally competent to levy a nationally set tax

<sup>11</sup> Refer to Local Taxation Working Group 4 November 2008 Item 2.

<sup>12</sup> Refer to Local Taxation Working Group 25 November 2008 Item 3.

<sup>13</sup> Sir Michael Lyons *The Lyons Inquiry into Local Government* 2007.

## 6. Conclusions

6.1 LVT could address a number of concerns with existing council tax arrangements:

- LVT is likely to be more progressive and avoids an ambiguous banding system. Ultimately the tax burden would be spread more fairly according to the value of land owned (rather than the banding of the property resided in);
- following the move to LVT, regular revaluations would be relatively straightforward and ensure assessed land values were up to date, further contributing to the overall fairness of the tax;
- LVT would effectively circumvent any issues around second home taxation, since all land would be subject to set tax rates, regardless of the nature of residence or ownership;
- locally set, LVT can be said to maintain local democratic accountability and the potential inclusion of water funding in LVT would further enhance this characteristic. In any interim period before LVT implementation, a pilot or targeted LVT, operating parallel with other local taxes, would also increase local fiscal power; and
- LVT can also be said to be a sustainable tax: the tax base is entirely constant and LVT encourages the best use of available land.

6.2 Similar to all property-based taxes, LVT would be difficult to avoid and, since existing collection systems and controls could be adapted, it is reasonable to expect continuation of relatively high collection levels and relatively low administration costs under LVT.

6.3 LVT also strikes a favourable balance between buoyancy and stability: regular revaluations would mean that assessed land values reflect up to date market conditions whilst land values themselves are unlikely to swing significantly in the short term – indeed LVT would help dampen any market-induced land value changes.

6.4 LVT would also have a positive macro-economic and socio-economic impact with a smoothing affect on land prices (and consequently property prices) and greater incentives for socio-economic activities that are considered desirable. The environment agenda would also be supported by LVT with less ‘urban sprawl’ and ‘land banking’, and local public investment could effectively be funded through follow-on increases in LVT revenues over time.

6.5 However, without significant lead-in time, LVT is a relatively high risk option. In order to effectively plan and implement LVT, pilot studies and gradual reform would be required, meaning a continuation of existing arrangements for a number of years.

6.6 Depending on the scope of reform, a number of other concerns have been identified with LVT:

- LVT alone would not address water charging concerns or low benefit take up, which represent some of the fundamental problems with existing arrangements. In particular, there would continue to be a significant proportion of poorer households that would struggle to pay their water charges and/or LVT. To address these issues, LVT would have to include water funding and the creation of a LVT rebate system;
- LVT is not easy to understand and is potentially very difficult to 'sell' to the public. This in turn may lead to increased appeals and delayed-payment;
- the treatment of agricultural land would have to be carefully considered as part of a wider discussion on the possible replacement of non-domestic rates and the subsequent impact on businesses;
- it may be difficult to identify owners of land, resulting in potential collection difficulties (at least in the short term) and increases in compulsory purchase orders;
- local authorities would have to react to (or even predict) the outcomes of land revaluations in setting their LVT poundage rate as part of the annual budgeting process;
- a locally set LVT would likely require central government equalisation, which in turn could distort potential macro-economic benefits and, potentially, give rise to a similar gearing problem that exists at present; and
- any nationally set LVT would remove any direct accountability to tax payers, significantly changing the relationship between local government, the electorate and the Scottish Government. There is also a risk that a nationally set local tax is not legally supported.

### **Appendix 1: Appraisal of existing council tax benefits and concerns against nationally set LIT**

Table 3 provides an overview of the benefits and concerns previously identified with the existing council tax regime, according to the agreed set of criteria and principles, and suggests how LVT could impact these issues.

*Table 3: Impact of LVT on existing benefits and concerns associated with the council tax*

<b>Criteria / Principle</b>	<b>Existing council tax benefits</b>	<b>Existing council tax concerns</b>	<b>Potential reform and related impact of LVT</b>
Fairness	<ul style="list-style-type: none"> <li>• Visible and transparent.</li> <li>• Benefits system provides a certain element of means-testing.</li> <li>• Property is one indicator of wealth and much of the country's wealth is stored in property.</li> <li>• Discounts and exemptions adjust for income-earning capacity of household.</li> <li>• Income tax already contributes significantly to local government finance.</li> <li>• Difficult to evade payment.</li> </ul>	<ul style="list-style-type: none"> <li>• Does not always reflect the ability to pay and is not progressive.</li> <li>• Current valuations often bear little resemblance to current values.</li> <li>• Banding system effectively caps the maximum any household will pay.</li> <li>• Households on full council tax benefit are still required to pay a water charge and often struggle to do so.</li> <li>• Property-wealth does not necessarily reflect ability to pay an annual cash levy.</li> </ul>	<ul style="list-style-type: none"> <li>• LVT would likely be more progressive, with greater incidence falling on owners of higher valued land. No requirement for banding system.</li> <li>• Once implemented, system of regular revaluations would be relatively straightforward. However, potential for additional work for local authorities to reflect changes in LVT revenues arising from revaluations in annual revenue budgets.</li> <li>• Crucially, LVT would not address the significant issues that exist in relation to water charging without parallel reform or including funding of water services in any LVT.</li> <li>• Likely would still require a LVT rebate / benefits system to assist those on low incomes. However, LVT would likely reduce burden on owners of low value land and there would likely be fewer low-income land owners compared to low-income property residents.</li> </ul>
Efficiency	<ul style="list-style-type: none"> <li>• Systems and controls in place to effectively administer tax and benefits.</li> <li>• Relatively high collection rates and low cost of collection.</li> </ul>	<ul style="list-style-type: none"> <li>• Eligible households do not always apply for benefit, exemptions or discounts.</li> <li>• Tax payers with more than £16,000 in</li> </ul>	<ul style="list-style-type: none"> <li>• As noted above, potential requirement for LVT rebate / benefits system, which would need to be designed to ensure adequate take-up. See 'Reformed council tax' report (LTWG 4 November 2008 Item 3) for options to improve benefit take up.</li> </ul>

Criteria / Principle	Existing council tax benefits	Existing council tax concerns	Potential reform and related impact of LVT
	<ul style="list-style-type: none"> <li>• Currently yield is adequate to support required revenue.</li> <li>• Few adverse behavioural effects and encourages property owners to make economic use of their assets.</li> </ul>	<p>savings are excluded from benefit.</p> <ul style="list-style-type: none"> <li>• Existing arrangements whereby local authorities collect water charges on behalf of Scottish Water are not satisfactory (see 4.10 in previous report).</li> <li>• NNDR valuations are not consistently applied and the system of reliefs and exemptions often has adverse impacts.</li> </ul>	<ul style="list-style-type: none"> <li>• In order to resolve water charging issues, would require water to be funded by any LVT, or for parallel water charge reform to be introduced alongside LVT.</li> <li>• There is potential to include NNDR in a LVT system, thus addressing many of the existing anomalies (see 'Existing council tax' report, LTWG 4 November 2008 Item 2). However, this could potentially have a significant impact on local businesses and their tax liability. Consideration also needs to be given as to the treatment of agricultural land.</li> <li>• The systems and controls to administer, collect and monitor LVT are largely in place (in the form of existing council tax, benefits and NNDR systems) and would require minimal reform.</li> <li>• LVT would largely fulfil the criteria of a sustainable tax: the tax base is entirely constant and LVT encourages the best use of available land.</li> <li>• Relatively easy to collect, with the exception of some small strips of land where ownership may be difficult to identify. LVT would be almost impossible to avoid whilst maintaining receipt of benefits from the land, and therefore collection and cost of collection rates would likely remain favourable.</li> <li>• Taxation of 2<sup>nd</sup> homes would be straightforward, with no adjustments required according to residency or other land ownership.</li> </ul>

Criteria / Principle	Existing council tax benefits	Existing council tax concerns	Potential reform and related impact of LVT
Predictability	<ul style="list-style-type: none"> <li>• Tax base is relatively stable year on year and the tax yield can be predicted reasonably accurately.</li> <li>• Retains an element of buoyancy (at least over the medium and longer term).</li> <li>• Cash flows can be managed relatively easily.</li> <li>• Enables Glasgow to be subsidised through central government or DWP funding to reflect socio-economic factors.</li> <li>• Projections indicate an 11% increase in taxable domestic properties by 2016.</li> </ul>	<ul style="list-style-type: none"> <li>• Glasgow's unique socio-economic situation means collecting council tax is challenging.</li> </ul>	<ul style="list-style-type: none"> <li>• Potential for continued difficulty in collecting LVT from very poor households although incidents of land owners with such low incomes would be less than the current incidence of home-dwellers with low incomes.</li> <li>• LVT would be relatively buoyant whilst retaining a certain degree of predictability and stability. LVT could also help smooth market fluctuations, in turn further enhancing predictability and stability.</li> <li>• The issue of DWP / central government subsidy for council tax benefit and the possible translation of this into LVT rebates would have to be carefully considered.</li> </ul>

Criteria / Principle	Existing council tax benefits	Existing council tax concerns	Potential reform and related impact of LVT
Local democratic accountability	<ul style="list-style-type: none"> <li>• Relatively transparent enabling the electorate to hold members to account.</li> <li>• Clearly identifiable as a local tax.</li> </ul>	<ul style="list-style-type: none"> <li>• The 'gearing' effect and the water charge issue impacts on the true level of local accountability.</li> <li>• There is a need for additional flexibility in relation to the system of business taxation.</li> </ul>	<ul style="list-style-type: none"> <li>• A nationally set LVT is not identifiable as a local tax and would, in practice, result in near 100% of local government expenditure being funded by central government. As such, local democratic accountability would be impinged and various legal obstacles would have to be overcome.</li> <li>• A locally set LVT would avoid these issues but would likely require central government equalisation. In turn, this could lead to a continuation of the existing gearing issue and potentially skew anticipated macro-economic benefits of a LVT.</li> <li>• LVT itself is arguably more closely related to local services. That is, LVT would automatically reflect levels of public investment, thus ensuring that local beneficiaries would essentially fund such investment.</li> <li>• Should the Council introduce a pilot LVT scheme to sit alongside existing tax systems, then this could be said to enhance existing local democratic accountability.</li> <li>• As noted above, LVT reform in isolation would not address water charging issues and the lack of accountability within water charging.</li> </ul>

Source: Local taxation working group 'Existing council tax arrangements' paper, section 4

