



29 August 2012

Fiscal Responsibility Division
Scottish Government
Area 3B South
Victoria Quay
EDINBURGH
EH6 6QQ

Dear Mr Swinney,

SCOTTISH LAND & BUILDINGS TRANSACTION TAX

I am responding to your June 2012 consultation on replacing Stamp Duty Land Tax with a Scottish Land and Buildings Transaction Tax. Rather than respond to your detailed list of questions (which all make the assumption that a transaction tax on land and property should be maintained), I am writing this short response because: -

I believe that SDLT **should be abolished** and replaced with a wider, more coherent land and property tax. My preference is for an annual levy on the rental value of site values (otherwise known as Land Value Tax). (1)

During this Parliament, the Scottish Government is proposing amendments to the non-domestic rating system (Local Government Finance - Unoccupied properties etc Scotland Bill) and to the business rate system as a whole as well as reform of council tax. All of these plans represent a fairly comprehensive programme of property tax reform. And yet none of these them appear to be informed by any clear set of principles that should underpin why and how land is assessed for taxation. The challenge for reform of property tax is to develop a system that is;

- coherent, principled and fair
- treats all land on an equal basis
- eliminates inefficient allocation of land
- eliminates speculative gains arising through unproductive activity
- promotes affordable access to housing and other vital land-based assets.

In this context, it is disappointing to note that no account appears to have been taken of the significant review of the UK taxation system led by Professor James Mirrlees, a Scottish economist, Nobel prize winner and member of the Scottish Government's Council of Economic Advisers.

The Mirrlees Review published their findings on 14 September 2011 and observed that;

In the UK poor tax design contributes to an inefficient housing market, distortionary taxation of financial services, excessive reliance on debt finance, employment levels lower than they need be and distorted and inefficient savings and investment decisions. The review sets out a long term strategy for reform, and in doing so speaks to immediate policy priorities. (2)

In relation to SDLT, the Review had this to say.

The taxation of housing is a mess. *Council tax is still based on 1991 valuations and is unnecessarily regressive. Stamp duty is among the most inefficient and damaging of all taxes. And renting is needlessly penalised by the tax system. Stamp duty should be abolished and council tax reformed so that payments are based on up to date values and are fully proportional to house value. This reformed Council Tax, which the review dubs a Housing Services Tax, would effectively stand in place of a VAT on housing. (2)*

The Mirrlees advocates the abolition of business rates and stamp duty land tax on non-domestic property and their replacement with a land value tax on business and agricultural land.

I agree with these conclusions and would urge the Scottish Government to conduct a comprehensive review of land and property taxation instead of the present series of ad-hoc reform proposals.

Yours etc.

Andy Wightman
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(1) Further details of how this might operate in Scotland can be obtained in my report *A Land Value Tax for Scotland* published in October 2010.

It can be obtained, together with other source material on the topic at www.andywightman.com/?page_id=1050

(2) Press Release available at www.ifs.org.uk/pr/mirrlees_sept11.pdf The home page for the Mirrlees Review is www.ifs.org.uk/mirrleesReview