



21 January 2013

EVIDENCE TO FINANCE COMMITTEE

SCOTTISH LAND & BUILDINGS TRANSACTION TAX

1. I am responding to your call for evidence on the Land and Buildings Transaction Tax (Scotland) Bill.
2. 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)
3. During this Parliament, the Scottish Parliament has enacted the Local Government Finance (Unoccupied Properties etc.) (Scotland) and the Scottish Government are proposing reforms to the non-domestic rates system as well as to 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.

4. In this context, it is disappointing to note that the Scottish Government appear to have taken no account 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.
5. 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)

6. 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)*

7. The Mirrlees Review 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.

8. I agree with these conclusions and would urge the Committee to seek evidence from Professor Mirrlees in order to properly assess the value of any tax on land transactions.

Andy Wightman
21 January 2013

(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