FIG WORKING WEEK 2019

22–26 April, Hanoi, Vietnam

"Geospatial Information for a Smarter Life and Environmental Resilience"

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From a property tax to a land tax: who wins, who loses?

Pete Wyatt
University of Reading, UK

Introduction

- Despite the theoretical case for a tax on the unearned wealth arising from land ownership, an all-encompassing land tax is a rarity. Instead, a land tax usually sits alongside a other land and property taxes…

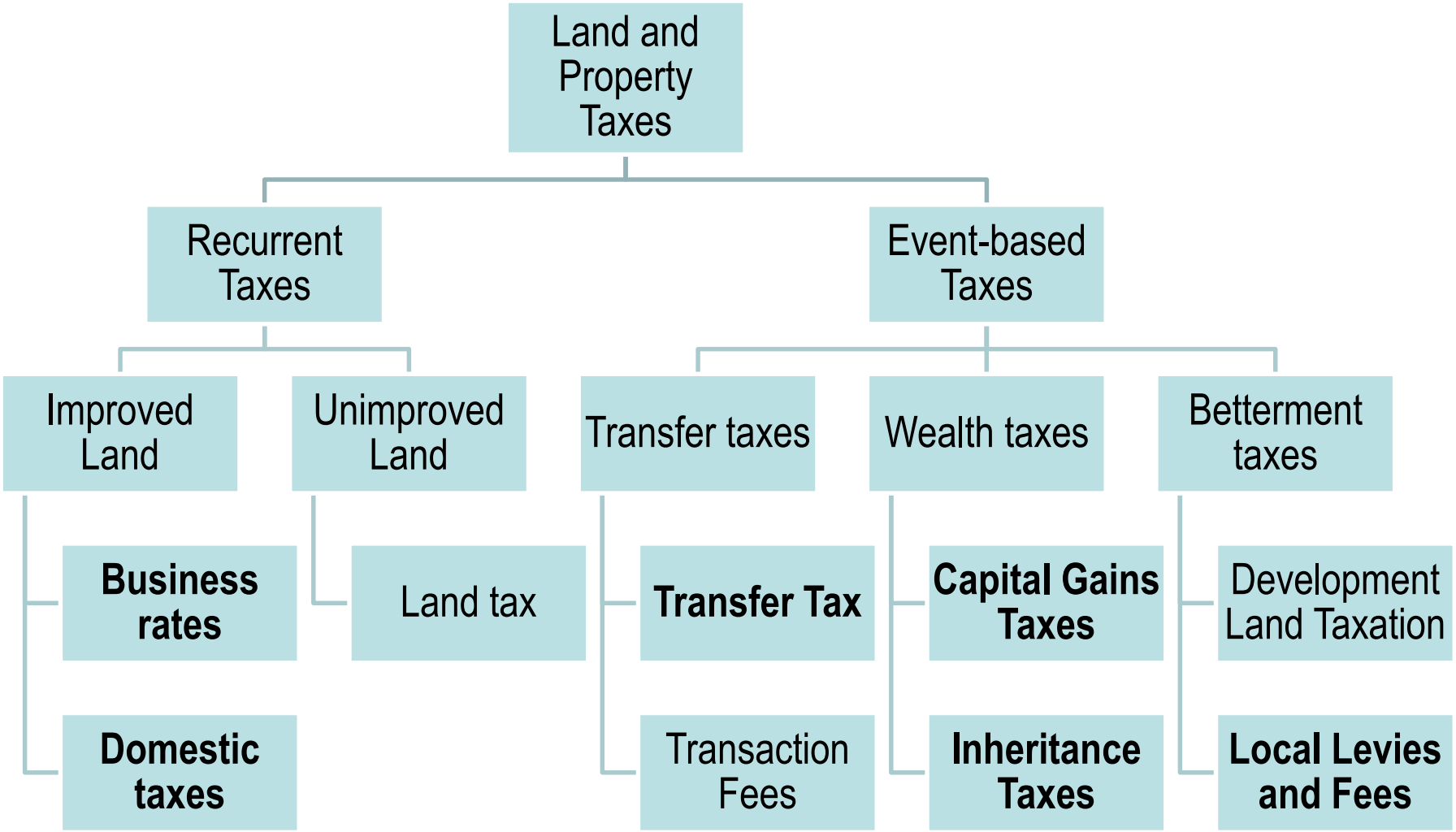
- What are the implications of switching from and property tax to a land tax?

- Focusing on one local authority area in the south east of England, the paper answers the following questions:

  - How might the valuation of unimproved land be undertaken in a developed economy where most transactional evidence relates to improved land?

  - What are the revenue implications of switching from an occupier tax to an ownership tax? In particular, who are the winners and losers?

Direct land and property taxes



England's property taxes

Council Tax	Business Rates
Based on value bands	Based on spot valuations
Based on capital values	Based on annual rental values
Local authorities set rate	Central government sets rate
Tax is collected by local authorities	
Occupiers liable (owners if property is empty)	
Based on 1991 values and never been revalued	Revalued every five years (seven years in one case)
Various reliefs and exemptions, the main one being 25% discount for single occupancy	Various reliefs and exemptions, the main one being exemption for agricultural land and woodland

Replacing a property tax with a land tax

- **Policy issues**
  - Purpose of tax: wealth tax or benefit tax? Determines taxable entity – owner or occupier?
  - Widespread reduction in land values
  - Windfall loss incurred by large landowners
  - Impact on other taxes
  - Impact on particular land and property assets, e.g. heritage sites and buildings
  - Ability to pay
- **Technical issues**
  - Land register of ownership and (planned or zoned) use
  - Valuing improved land as though it were unimproved
  - Capital values or rental values? If capital values, what about 'hope' value? If rental values, what about alternative uses?

Method – case study

- Reading is a town situated 60km west of London in the south east of England with a population of approximately 163,000 and an area of just over 40km2
- Mix of large and small owners and occupiers of land and property
- Council Tax base and Business Rates base are summarised below…

Band	Property value (as at 1991)	Charge 2017/18	Number of dwellings
A	up to £40k	£1,149	6,450 (9%)
B	£40k to £52k	£1,340	14,010 (20%)
C	£52k to £68k	£1,532	28,670 (41%)
D	£68k to £88k	£1,723	10,860 (15%)
E	£88k to £120k	£2,106	5,430 (8%)
F	£120k-£160k	£2,489	3,270 (5%)
G	£160k-£320k	£2,872	1,840 (3%)
H	£320k and over	£3,447	80 (-)
TOTAL			70,600

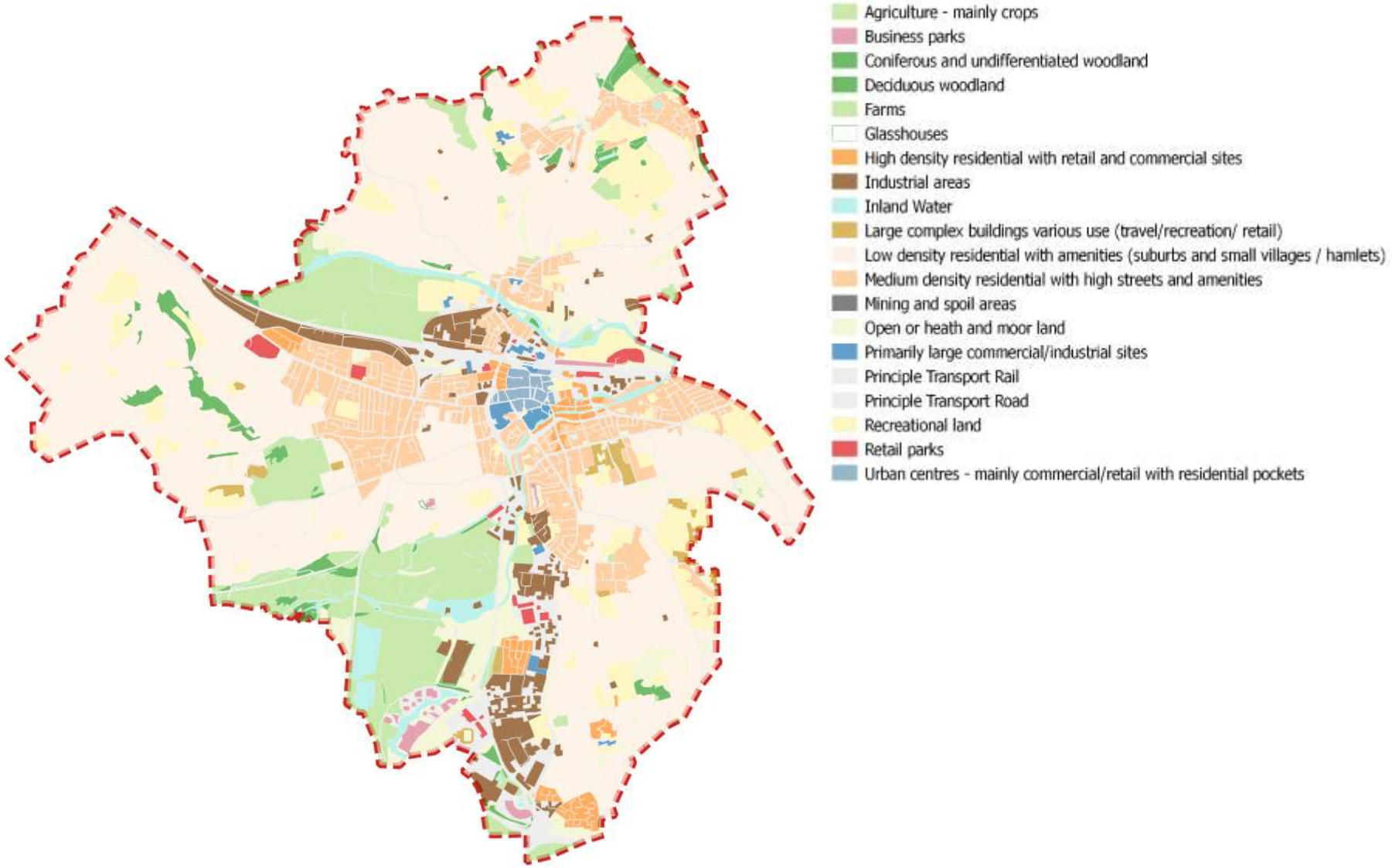
Use	Number of properties	Rateable value (% of total)
Retail, Leisure	2,158 (40%)	£116,850,590 (37%)
Offices	1,614 (30%)	£111,142,825 (35%)
Factories, Warehouses	886 (16%)	£46,842,495 (15%)
Other	790 (15%)	£38,515,553 (12%)
TOTAL	5,448	£313,351,463

- CT revenue = £92m, an average of £1,300 per dwelling after reliefs, and BR revenue = £124m, an average of £23,000 per business after reliefs
- Total recurrent land and property tax revenue for Reading in 2017/18 is **£216m**

Land use in Reading

Code	Land use description	Area (m2)
	Inland water	1,015,156
	Open or heath and moorland	1,868,069
a	Agriculture - mainly crops	4,704,744
b	Glass houses	5,189
c	Farms	19,138
d	Deciduous woodland	662,151
e	Coniferous and undifferentiated woodland	208,874
	Principal transport road	5,382,868
	Principal transport rail	342,836
	Recreational land	3,322,058
f	Large complex buildings various use (travel/recreation/retail)	346,601
g	Low density residential with amenities (suburbs and small villages/hamlets)	15,421,783
h	Medium density residential with high streets and amenities	4,029,255
i	High density residential with retail and commercial sites	570,369
j	Urban centres - mainly commercial/retail with residential pockets	188,501
k	Industrial areas	1,650,663
l	Business parks	187,627
m	Retail parks	245,176
n	Primarily large commercial/industrial sites	213,022

Land use in Reading



Land valuation model

- The land use areas were used to calculate the land tax revenue for Reading using two valuation models, one acting as a cross-check on the other
- The first was based on comparison with published land value data and the second was a residual valuation model
- Separate valuations were undertaken for the land uses listed in the table

Land Use	Land use code
Commercial (city centre)	j
Commercial (out of town)	f, l, m, n/2
Residential (low density)	g
Residential (medium density)	h
Residential (high density)	i
Industrial	k, n/2
Agriculture	a, b, c, d, e

- The residual valuations were based on a set of land use specific inputs that were evidenced from various sources – see paper for details

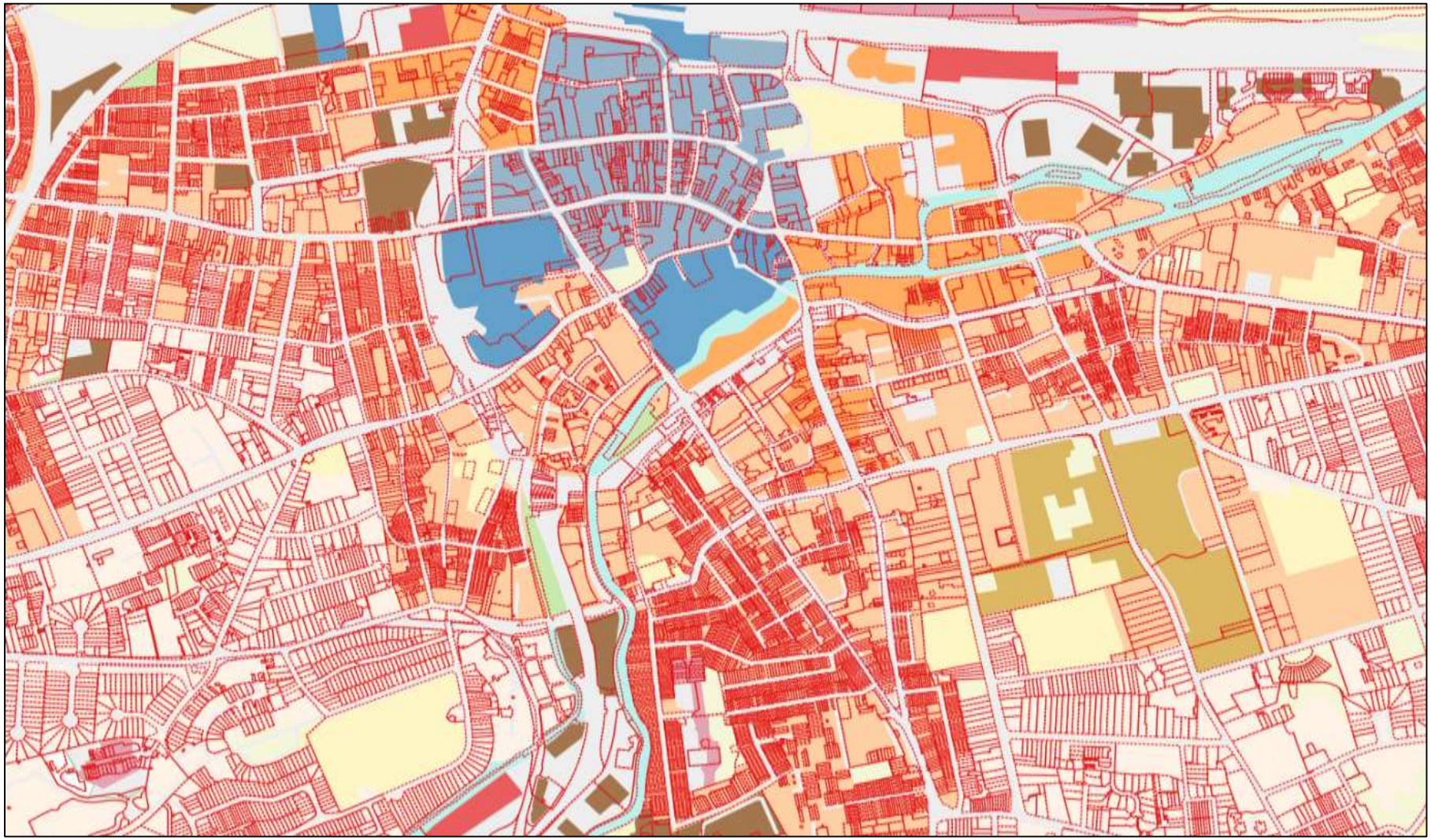
Results from the residual land valuation model

Land use	Area (m2)	Land value (£/ha)	Land value (£)	Tax revenue at a rate of 3.00%	Tax rate (£/m2)
Commercial (city centre)	188,501	22,315,579	420,651,465	12,619,544	66.95
Commercial (out of town)	885,915	11,902,038	1,054,419,865	31,632,596	35.71
Residential (low density)	15,421,783	2,441,527	3,765,269,469	112,958,084	7.32
Residential (medium density)	4,029,255	3,349,019	1,349,405,153	40,482,155	10.05
Residential (high density)	570,369	9,269,725	528,716,808	15,861,504	27.81
Industrial	1,757,174	125,137	21,988,727	659,662	0.38
Agriculture	5,600,067	22,500	12,600,150	378,004	0.07
TOTAL	**28,453,065**		**7,153,051,636**	**214,591,549**	

Findings

- The proportion of total tax revenue generated by agricultural land is very small (but the amount of agricultural land in the Reading borough is very small)
- The largest proportion of tax revenue is generated from low density residential and this is likely to be the case for many parts of England, particularly in the south east, because of the combination of high land values and low density (land extensive) development
- A shift of tax liability from businesses to residents (assuming a common tax rate)
  - In 2017 businesses generated 57% of revenue from recurrent property taxes in Reading (the same proportion as for England as a whole) and residents 43%
  - The land tax shifts the burden substantially from business (21%) to residents (79%)
- A switch from a property tax on occupiers to a land tax on owners would see a 28% reduction in the size of the tax base, from 76,048 taxable entities (70,600 dwellings and 5,448 businesses) to 55,014 freehold parcels
- Taking a more detailed look at land uses of these freehold parcels, both in terms of number of parcels and land area…

Freehold parcels for central Reading, overlaying land use map



Taxation of freeholds in Reading

Land use	Area (m2)	Number of freeholds	Area per freehold (m2)	Tax rate (£/ha)	Tax per freehold
Commercial (city centre)	188,501	364	518	66.95	34,669
Commercial (out of town)	885,915	332	2,668	35.71	95,279
Residential (low density)	15,421,783	36,583	422	7.32	3,088
Residential (medium density)	4,029,255	16,056	251	10.05	2,521
Residential (high density)	570,369	1,235	462	27.81	12,843
Industrial	1,757,174	1,193	1,473	0.38	553
Agriculture	5,600,067	1,181	4,742	0.07	320
TOTAL	28,453,065	56,944			

Findings

- **Looking at the tax base**
  - Compared to 5,448 business rates properties, there are 1,877 freeholds classified as commercial and industrial land use
  - Compared to 70,600 Council Tax dwellings, there are 53,874 freeholds classified as residential land use
  - The 1,181 freeholds classified as agricultural would be new to the tax base
- **Looking at the average tax liability per entity**
  - Tax per agricultural land owner is very low due to their small size (a little under half of one hectare on average)
  - For city centre and out of town commercial land, tax liability per freehold is much higher (£35,000 and £95,000 respectively, compared to £23,000 per property under Business Rates in 2017). Many freeholds, especially out of town, will have multiple occupiers in office buildings, shopping centres, retail and business parks.
  - The major shift is for residential; ave Council Tax bill was £1,300 per dwelling in 2017 but under the land tax this would increase to £3,000 for low density, £2,500 for medium density and £13,000 for high density residential freeholds.

Conclusions

- Switching from a property tax to a land tax is likely to create winners and losers
  - Owners of low density housing in high value areas lose out
  - The scale of the shift from businesses to residents is considerable; from entities that don't vote to those that do. Perhaps this explains why it has never been done!
- The use of different tax rates may alleviate the shift.
- For agricultural land, expansion of the tax base to include this land use has a marginal impact in Reading but is likely to be more contributory in more rural areas
- Detailed and up to date land ownership records are essential, as is the existence of comprehensive land use planning and development control system. After all, land use allocation is a key value influence, and land values are very sensitive to planning assumptions.