SCOTTISH LAND REVENUE GROUP

Scotland's Path to Prosperity

How and why Scotland should collect the rental value of land as revenue
A submission to the Scottish Land Commission

The Scottish Land Revenue Group

Scotland's Path to Prosperity
By Mark Wadsworth LLB BA ACCA ATII

Contact the Hon Secretary John Digney info@slrg.scot
Designed by Ian Kirkwood graphic@ik-design.co.uk

Cover photo: Stirling and the Wallace Monument © J Digney

MSPs can now restructure tax to boost the Scottish economy by 9% a year

SCOTTISH LAND REVENUE GROUP

www.slrg.scot
www.facebook.com/AGRforScotland
www.twitter.com/agr_slrg

The Scottish Land Revenue Group was formed in 2014 to promote Annual Ground Rent (AKA Land Value Tax) as a highly desirable replacement source of government revenue. We aim to show how Scotland could move away from destructive taxation on legitimate economic activity, and look to socially-created land values as an *alternative* source of public revenue that would allow prosperity to both grow *and be shared*.

Scotland has fought hard to achieve a degree of independence over tax policy. Recently devolved powers over Income Tax rates and bands, coupled with existing powers over local taxation, allow Holyrood to re-structure its tax system to make it much fairer and more efficient.

This submission

Our submission's author, Mark Wadsworth, is a tax consultant at a firm of chartered accountants. In this document we lay out in detail a viable and highly progressive reform of the tax system, using powers devolved to the Scottish Government. This document is effectively a draft plan for the introduction of Scottish AGR/LVT.

Adopting Annual Ground Rent and either cancelling or substantially reducing deadweight taxes such as income taxes and VAT (not devolved) would lead to a level of social justice and enhanced economic prosperity that Scotland has not achieved under Westminster control. Such a change in policy direction would provide the key link between land reform and fiscal reform.

The Scottish Land Revenue Group has a core steering group and a more general mailing list. Our economists, tax specialists and land users hope to discuss the contents of this submission further with the SLC.

We hold public events periodically. For more information please email us at info@slrg.scot.

Terminology

'AGR' (Annual Ground Rent), as prescribed by Adam Smith, is our preferred term for the collection of the socially produced surplus as state revenue. Whilst better known as LVT (Land Value Tax), the levy is immune to deadweight losses associated with 'taxes' and is better defined as an accurate charge for the services people choose to access.

Scotland's Path to Prosperity

CONTENTS

Although attention is often focused on Scottish rural land, most socially generated Scottish land rent is urban.

PHOTO © J DIGNEY

PHOTO © J DIGNEY

Introduction

"The equal right of all men to the use of land is as clear as their equal right to breathe the air – it is a right proclaimed by the fact of their existence"

HENRY GEORGE

Twenty years ago to the month, the Land Reform Policy Group (LRPG) produced its first consultation document, *Identifying the Problems*[1] in preparation for a programme of land reform by the Scottish Parliament whose formation was imminent. The opening words of that document were:

> **"The land area of Scotland is about 2% urban and 98% rural. Land reform issues relate primarily to rural land."**

No doubt influenced by the increasing unrest among remote communities living in the grip of absentee landlords and by the success of buyouts such as Assynt and Eigg, this statement set the tone of the land reform debate and rendered it of little significance to the bulk of Scotland's population. In terms of population dispersal those quoted percentages can largely be reversed – statistics for 2009 show 6% of the population in "Remote Rural", 12% in "Accessible Rural" and 82% in the "Rest of Scotland".[2]

What matters is who collects the Rent of Land

The rental value of Scottish rural and urban land

As an outcome of the LRPG's conclusions, the Community Right-to-Buy (CRtB), was introduced by the new Scottish Parliament following assurances by the LRPG that it "would effect rapid change in pattern of ownership".[3] By 2012 only 11 successful purchases had been made and the Scottish Government was forced to admit that the money available from the Scottish Land Fund "is often too small to make more than a modest change to the pattern of land ownership in Scotland".[4]

1. Scottish Office *Identifying the Problems* (Feb 1998)
2. http://www.gov.scot/Publications/2011/09/29133747/
3. Scottish Office *Identifying the Solutions* (Sept 1998)
4. http://www.gov.scot/Resource/0039/00397682.pdf (pp 16, 32)

Despite this, the government remains committed in principle to the CRtB and has set itself a target of one million acres in community ownership by 2020. In pursuit of this target, it seems likely that efforts will continue to be concentrated on "Remote Rural" areas where prices per acre are low. The £10m Scottish Land Fund annual budget would have little impact on urban land redistribution and the level of private donations is unpredictable.

If the Scottish Government persists in measuring its success by acreage in this way, then the vast majority of the population will continue to see land reform as of little relevance to their own lives. We would therefore express the issue as follows:

> **Only a very small proportion of the total rental value of land in Scotland relates to agricultural land; the vast majority relates to urban and developed land. Land reform issues relate primarily to urban land and developed land.**

With 82% of the population living in the non-rural 'Rest of Scotland' it is hardly surprising that the greatest land values are concentrated there. The Isle of Ulva of about 4,600 acres is currently for sale at £4m, which amounts to under £900 per acre even ignoring the value of the few buildings. By contrast, building land in urban areas routinely sells for hundreds of times as much per acre and more than a *thousand* times as much in the most desirable location and city centres.

These high values are an indicator of the level of public demand for location and are further enhanced by the provision of publicly funded services and infrastructure. They are generated by the whole of society and not by the landowner. Rather than lining the pockets of landowners, these publicly generated land values ought to be recycled back into the public purse as Annual Ground Rent (AGR), which would in turn regenerate life at the margin.

It is axiomatic that the land of Scotland belongs equally to the people of Scotland. Land reform has to be about giving practical expression to that; otherwise it is a meaningless platitude. The way to achieve it is not through widespread re-acquisition and re-allocation of the land of Scotland – such an exercise would be unthinkable. The key is to do it through the fiscal system. We do not need to confiscate land

"Buy land – they're not making any more of it"

WILL ROGERS

Land-hoarding is an aspect of the socially and economically damaging practice known as *Rent-seeking*. It creates artificial shortages, drives up prices, holds back much-needed development and forces people to live further from their place of work.

AGR/LVT would, if collected at a high rate, put an end to this practice and would be a powerful weapon against land monopoly. Land would no longer have worth purely as an investment if it were subject to a recurring annual charge based on its rental value, levied regardless of whether or not it was being put to optimum permitted use. Its speculative value would collapse. Disposals of surplus land would undoubtedly follow the re-linking of land ownership with such an element of social responsibility.

or buy it back; we do not need to nationalise it; we do not need bureaucratically determined redistribution of land parcels; *we simply need to collect the socially generated rental value*.

Devolved taxes

Council Tax, Non-Domestic Rates and LBTT can be scrapped and Income Tax much reduced. These are economically damaging taxes, penalising the very activities we rely on to drive our economy, thereby shrinking their own tax base. Instead, the Scottish government can collect an equivalent – or greater – amount in AGR. *Increasingly liberated from the burden of destructive taxation set at Westminster, Scotland could enjoy a level of economic prosperity and social justice unimaginable until now*.

Benign revenue

Economists agree that taxes on economic rent, in particular the rental value of land, are entirely benign and non-distortionary, a point made by two Nobel prize-winners on the Scottish Government's own Council of Economic Advisers – Professors Joseph Stiglitz[5] and Sir James Mirrlees.[6]

Our calculations are based on publicly available data and where necessary, informed estimates. The submission integrates land reform and fiscal reform to arrive at a far more equitable and efficient economic system. The paper deliberately avoids getting embroiled in issues such as sporting estates; land held by conservation bodies; crofting land etc. It focuses on urban land, where socially-created values are highest and where *private fortunes are currently made on the back of public investment*.

"We want to drive a more serious debate on tax evasion and tax avoidance"

DAVID CAMERON, 2013

Politicians regularly denounce tax circumvention and promise to deal with it. But taxes such as income tax and VAT are sitting targets for dodgers. AGR, by contrast, is virtually impossible to avoid or evade. Land cannot be hidden, disguised or moved offshore.

Land monopoly

Land monopoly is the key to wealth, power and privilege, yet land was the free gift of nature and its value is created and sustained by the whole nation – public and private sectors alike.
A society which perpetuates a system that allows the rental value of the very fabric of the nation – its natural resources – to be collected by a tiny minority, and meets its running costs by taxing the productive efforts of those who earn modest incomes, cannot be described as *fair*.

Community compensation

To create a level playing field there is no need to dispossess current owners of land; all we need to do is to oblige those who hold land to contribute to the public purse in proportion to the monopoly they enjoy. By definition, "exclusive" rights to what nature or the rest of society has provided means a loss of those rights to everyone else. Those exclusive rights must therefore be balanced by a reciprocal obligation to the rest of society, to be collected by the government and spent or redistributed as equitably as possible in compensation for the rights foregone. AGR is the most elegant and efficient solution to the land question.

5. *The Price of Inequality* (Page 212)
6. *Tax by Design* (Institute for Fiscal Studies)
https://www.ifs.org.uk/uploads/mirrleesreview/design/ch16.pdf

1. Executive Summary

Assumptions, terminology and estimates

Scotland has a population of 5.4 million[7] with 2.4 million households[8] and 2.5 million dwellings.[9] More than half live in the central Lowlands (from Inverclyde across to East Lothian), so this submission does not distinguish between 'local' and 'national' taxes. This submission assumes that planned transfers between Scotland and the rest of the UK and spending at local authority level remain otherwise constant.

The rental value of land and buildings can be split into two parts. Part relates to the cost of providing and maintaining the bricks, mortar and other improvements. The rest relates to the pure location element of where land and buildings happen to be, which we refer to as "site premium". We refer to a tax levied on the site premium as "Annual Ground Rent" or "AGR".

All our workings are based on the best available data we have to hand, taken from publicly available official and reliable sources. All figures and percentages quoted are subject to a margin of error, but are sufficiently accurate to give an idea of the overall opportunities now available under devolved taxation.

Background

Total revenue from the principal devolved taxes in 2016-17[10]

Current Devolved Tax	£ million
Council Tax	2,082
Non-domestic Rates	2,732
Land and Buildings Transaction Tax	466
Scottish Income Tax	11,313
Total	**16,593**

Economists and land reformers down the ages have always explained that taxes on the "site premium" of land (see definition above) are the best way of raising taxes.

We estimate the total site premium of all Scottish developed land (residential and commercial, excluding farms and forests) to be just under £22 billion, meaning that the above taxes could largely be replaced with a tax on site premiums.

In the short term, we therefore recommend that the Scottish Government implement the following changes:

- Replace the Land and Buildings Transaction Tax (LBTT), Council Tax and Non-Domestic Rates with a uniform, harmonised system called "Annual Ground Rent" (AGR – definition above).
- The AGR rate required to replace current revenues from LBTT, Council Tax and Non-domestic Rates would be approximately 25% of site premiums.

In the medium term, we urge the Scottish Government to implement the following further changes:

- Increase the AGR rate to approximately 65% and use the revenues raised to reduce the basic rate of Scottish income tax to 0% and the higher and additional rates to 20%;
- Reduce the amount of subsidies paid to owners of Scottish agricultural land and/or impose AGR on farm and forestry land at a low rate.

The remainder of this submission looks at the position after the second stage has been implemented in full. For example, current Council Tax Band D is almost constant across the whole of Scotland (between £1,000 and £1,100, ignoring water and sewerage rates). *But with a levy on AGR, the sum raised on a semi-detached house in the cheapest area (Western Isles) would be one-fifth as much as in the most expensive area (Edinburgh).* The tax on tenements, flats, terraced houses and detached houses in any area would be set relative to the tax on semi-detached houses in that area.

If our proposals are implemented in full, the total revenue raised would be similar to revenues raised by devolved taxes in 2016-17:

Total revenue from our proposed reforms

Reformed revenue	£ million	See
Scottish Higher Rate Income Tax	1,876	Part 2
Farmland/subsidy reductions	285	Part 3
Levy on Annual Ground Rent (residential)	10,491	Part 5
Levy on Annual Ground Rent (commercial)	3,941	Part 5
Total	**16,593**	

7. http://www.ons.gov.uk/ons/rel/census/2011-census/population-estimates-by-five-year-age-bands--and-household-estimates--for-local-authorities-in-the-united-kingdom/stb-population-and-household-estimates-for-the-united-kingdom-march-
8. http://www.ons.gov.uk/ons/rel/census/2011-census/population-estimates-by-five-year-age-bands--and-household-estimates--for-local-authorities-in-the-united-kingdom/stb-population-and-household-estimates-for-the-united-kingdom-march-2011.html
9. https://beta.gov.scot/news/authority-tax-dwellings-and-tax-base-figures-for-2017/
10. http://www.gov.scot/Publications/2017/08/7201/6

2. Scottish Higher Rate Income Tax

Scottish Income Tax applies to income from employment, self-employment, pensions and rents. Income tax rates on savings and dividend income are set UK-wide. We recommend reducing the basic rate of Scottish Income Tax to zero. Employment and self-employment income is also subject to National Insurance (NI) contributions, which are set at lower rates for higher earners.

It would be unusual and unpopular for higher earners, especially the self-employed, to face a lower effective rate than basic rate employees, so we recommend setting the higher rate of income tax at 20%, giving fairly flat overall rates as follows:

Our proposed SHRIT rates

Rate	Employment	Self-employment
Basic rate	22.7% (Note 1)	9% (Note 2)
Higher rate	31.5% (Note 3)	22% (Note 4)

Notes

1. Employer's National Insurance Contributions are 13.8% and Employee contributions on wages up £45,000 a year are 12%, so for every £113.80 paid by the employer, the employee receives £88. £88 divided by £113.80 is 77.3%, an overall tax rate of 22.7%.

2. Class 4 Self-employed NI contributions are 9% of the first £45,000 income/net profits in a year.

3. Employer's NI Contributions are 13.8% and Employee contributions on wages above £45,000 a year are reduced to 2%, so for every £113.80 paid by the employer, the employee receives £78 (£100 wages less 2% Employee's National Insurance and 20% Scottish higher rate income tax). £78 divided by £113.80 is 68.5%, an overall tax rate of 31.5%.

4. Class 4 Self-employed NI contributions are reduced to 2% of income/net profits above £45,000 in a year, in addition to the Scottish higher rate of income tax of 20%.

Retention of damaging income taxes should be considered temporary

Of total income tax revenues, higher rate income tax accounts for 26.4% and additional rate income tax accounts for 7.6%[11] so we have forecast revenues as follows:

Forecast revenues

Tax	Revenues	Rate (2016-17)	Proposed Rate	Forecast Revenues
Higher rate income tax	£2,987m	40%	20%	£1,494m
Additional rate income tax	£860m	45%	20%	£382m
Total				£1,876m

Actual revenues will be much higher because of behavioural responses, for example:

- UK residents will prefer to declare income for tax purposes in Scotland than in the rest of the UK (or elsewhere in the world),
- Under the present system, owners of limited companies can minimise their total tax and National Insurance bills by taking dividends instead of taking a salary. Under our proposals, it will trigger less tax overall for owners of limited companies to take their income as salary. However, the taxes saved (corporation tax and income tax) are devolved taxes, with no reduction in devolved taxes (Scottish income tax).
- Very small Scottish businesses which operate as limited companies will be able to save UK-wide taxes (corporation tax and income tax on dividends) by operating as sole traders or partnerships, increasing Scottish income tax receipts.

We have not adjusted our forecast revenues for these factors because they are difficult to estimate. See also Part 8.

11. https://www.parliament.scot/ResearchBriefingsAndFactsheets/S4/SB_15-72_Income_Tax_in_Scotland.pdf

3. Agriculture and Forestry

Although agricultural and forestry land covers three-quarters of Scotland by surface area, agricultural land is not central to this submission.

While we do not wish to downplay the importance of the agricultural and forestry sectors, it should be borne in mind that:

- Agriculture and forestry accounts for around 1% of Scottish GDP and 2.4% of employment[12]
- There are around 14 million acres of agricultural and forestry land,[13] with an overall average rental value of £16/acre,[14] giving a total rental value of (very approximately) £200 million – about 1% of the total site premium of developed residential and commercially used land.

Any reform package has to address the following issues:

- Owners of Scottish land receive £650m a year under various subsidies (primarily the Basic Payment Scheme) for simply owning land.[15] The wealthiest 500 landowners own half the land in Scotland[16] and the top 20% of subsidy recipients get about 70% of the total amount which is paid in Scotland.[17] Tenant farmers find it difficult to acquire land as the upfront costs are so high.
- There is over-farming of marginal land more suitable for re-wilding to prevent erosion and flooding, or for preservation, tourism and public amenity.
- There is popular disquiet that the wealthiest one percent of one percent own large tracts of land to be used for private recreational purposes (hunting and grouse shooting).

In fiscal terms, the package should attempt to save the public purse around £285 million, whether that is a minimum tax per acre (to encourage the rewilding of marginal farm land, deer forests or grouse moors) or subjecting the Basic Scheme Payments (as quasi-rental income) to AGR at 65%.

Each of these alternatives would raise (or save) £285m a year, which averages out at AGR (or BSP claw back) of £20 per acre. £20 seems high compared to official estimates of average rental values (£16), but it is in line with average prices paid for large tracts of Scottish land of about £400/acre.[18] In future, those wishing to occupy such large tracts would not need to realise other assets to raise large sums to acquire land – they would be able to keep their other assets intact, acquire the land for little or nothing and use the return on their other assets to pay £20/acre AGR in perpetuity, adjusting, if appropriate, only for inflation.

12. http://www.gov.scot/stats/bulletins/01281
13. http://www.gov.scot/Topics/Statistics/Browse/Agriculture-Fisheries/agritopics/LandUseAll
14. https://beta.gov.scot/publications/tenanted-agricultural-land-scotland-2016-17/pages/3/
15. http://www.bbc.co.uk/news/uk-scotland-scotland-politics-40370931
16. http://www.independent.co.uk/news/uk/home-news/who-owns-scotland-1320933.html
17. Scottish Government Rural Payments Inspections Directorate (2015)
18. http://www.dailymail.co.uk/news/article-4928960/Bills-new-tax-Scottish-shooting-estates.html

4. The total site premium of land in Scotland (residential and commercial)

Having established how much revenue needs to be raised from AGR (A), the next step is to calculate the total tax base (B). The required tax rate is then simply A divided by B.

The tax base (B) in turn is the total rental value of Scottish land and buildings, minus the running costs and notional depreciation of bricks and mortar. The balance of the rental value relates purely to the "location, location, location" or the "site premium".

Residential land and buildings

Average residential rents in Scotland[19] and implied site premiums

Bed-room	Monthly Rent	Annualised including Council Tax	Annual cost of providing building	Site Premium
1	£501	£6,853	£2,000	£4,853
2	£643	£8,557	£3,000	£5,557
3	£787	£10,285	£4,000	£6,285
4	£1,143	£14,557	£5,000	£9,557

The total rental value of a home is the amount which a tenant is prepared to pay to occupy it, so we have added average Council Tax of £841 per home. The logic is simple – if a landlord agrees to pay the Council Tax himself, he can charge a correspondingly higher rent. The tenant is indifferent whether he pays Council Tax of £80 a month or an extra £80 rent for a home where Council Tax is included.

We have deducted an estimate for running costs from the total annual rental value to arrive at the site premium. Our estimate of running costs is on the high side and covers actual cash costs (insurance, repairs) and the notional amortisation of the bricks and mortar (or notional interest on the capital tied up in bricks and mortar).

The Scottish dwelling stock is categorized by type rather than number of bedrooms,[20] so we have made some assumptions:

Scottish dwelling stock assumptions

Type of home	Number	Bedrooms
Tenement (shared entrance)	579,000	1
Flats (own entrance)	322,000	2
Terraced	522,000	3
Semi-detached	480,000	3
Detached	531,000	4

All that is required to estimate the total site premium of all Scottish housing is to multiply up the results of the previous two tables:

Scottish residential site premiums

Type of home	Number	AGR Value	Total £m
Tenement (shared entrance)	579,000	£4,853	2,810
Flats (own entrance)	322,000	£5,557	1,789
Terraced	522,000	£6,285	3,280
Semi-detached	480,000	£6,285	3,017
Detached	531,000	£9,557	5,075
Total	2,434,000		**15,971**

Commercial land and buildings

Total Non-domestic Rates in 2016-17 were £2,732m. The main multiplier rate is 46.6p in the £1,[21] implying that the total assessed value of commercial land and buildings is £5,862m.

The total rental value of any premises is the total amount which tenants are prepared to pay to occupy it. The tenant is indifferent how this total payment is split between actual landlord (rent) and local council (Non-domestic rates). For example, if Non-domestic Rates are increased, landlords find it difficult to also increase rents; if Non-domestic Rates are reduced, landlords find it much easier to increase rents.

The total gross rental value – the amount that tenants would have to pay – is the assessed value (£5,862m) plus the associated Non-domestic Rates (£2,732) – is therefore £8,594m.

19. http://www.gov.scot/Publications/2017/11/7528/8
20. http://www.gov.scot/Publications/2016/12/1539/335996
21. https://www.bgateway.com/business-guides/manage-your-business/premises-and-property/business-rates-and-the-2017-revaluation-scotland

We estimate that *two-thirds of the total rental value is location value*, this is of course our best estimate and subject to a margin of error, but in round figures, the total location value of all commercial premises is £6,000m.

Total site premium of residential and commercial land

The total site premium is £21,971m and required revenues are £14,432m (from Part 1). This means that the fiscally neutral rate of AGR would be close to 65% of the site premium.

'ATCOR' (All Taxes Come Out of Rent)

Is there enough site rent to fund the public services of a modern nation like Scotland? The recorded size of AGR (Annual Ground Rent) is a small proportion of GDP – a distorted version of the national accounts compounded by the statistical practice of conflating land with capital. Business "profits" are recorded as returns on "capital investment" but they are in large part land rent.

Reducing taxes on labour and trade in favour of AGR/LVT reveals the true scale of actual rents: a sum greater than all taxes combined. It will also increase the rents, allowing *full* and *fair* financing of the functions of state as well as increased economic activity. This would yield to the state, year on year, an even greater volume of AGR to spend on behalf of the community that creates it as the social surplus.

5. Assessment and administration

Farmland

The tax due on farmland can be dealt with using the same system as is in place for paying out agricultural land subsidies – the tax would be a reduction or cancellation of the entitlement to subsidies.

Residential and commercial land

The existing systems for assessing and collecting of Council Tax and Non-domestic Rates can easily be adopted and adapted for the AGR system.

AGR on residential land

The system will mirror the Council Tax system, which is/was a four-step process.

Step 1. Valuation/Banding

The relative value of homes in each local authority area is established. This was last done in 1991[22] based on typical selling prices (a hypothetical value is calculated for homes built since 1991). Houses are then allocated to eight Council Tax bands, which have the following relative values for Council Tax purposes:

Valuation/banding for use by councils

Band	Fraction	Percentage	Percentage
A	6/9	67%	67%
B	7/9	78%	78%
C	8/9	89%	89%
D	9/9	100%	100%
E	11/9	122%	131%
F	13/9	144%	163%
G	15/9	167%	196%
H	18/9	200%	245%

Step 2. Number of Band D homes

The fractions in each area are then added together to calculate the number of Band D equivalent homes in each local authority.

22. Valuations were updated in Wales in 2005 http://www.council-tax.com/counciltaxrevaluationwales.html. Northern Ireland did not replace Domestic Rates with Council Tax and carried out its last revaluation in 2007 https://www.finance-ni.gov.uk/topics/property-valuation/valuation-lists

So Scotland has 2.473 million dwellings liable to Council Tax and 1.967 million Band D equivalent homes.[23]

Step 3. Revenue per local authority

It is decided how much each local authority has to collect in total.

Step 4. Compute other bands

The total amount to be collected by each local authority is divided by the number of Band D equivalent homes. This is then the tax in Band D, and the tax on homes in other bands is the appropriate fraction from the table above.

For the past few years, as a matter of policy, the system has been used so that the Band D tax in most authorities is between £1,000 and £1,100, excluding water and sewerage Rates, regardless of the different value of housing in different authorities.

The AGR System

Four steps follow the current Council Tax system.

Step 1. Valuation/Banding

Local authority areas with small populations and little variation between the cheapest and most expensive homes (i.e. the Western Isles, the Orkney Islands or the Shetland Islands) can be treated as a single valuation area.

Local authority areas where there is a large variation between the most expensive and the cheapest areas, such as Edinburgh with a large population and a large difference between average prices in the most expensive Edinburgh postcode EH10 (£389,460[24]) and in the cheapest EH8 (£183,622[25]) would be sub-divided in to smaller valuation areas to reflect different local values.

There is no need to establish the market value selling price of each home as was done with the Council Tax valuations in 1991. It is relative and not absolute values that matter. Accurate figures for rental values are not easily available (see Part 10) but selling prices can be used as a proxy. The average selling price of the four main types of dwelling across the whole country are as follows:[26]

Home selling prices today

Type of home	Price	Percent of average
Flat	£140,042	83%
Terraced	£143,616	85%
Semi-detached	£168,482	100%
Detached	£262,027	155%
Average*	£169,256	

* https://www.ros.gov.uk/__data/assets/pdf_file/0006/46509/RoS_Statistical_Report_Apr_Jun_16.pdf. Figure for June 2016 plus 3%.

So homes could simply be put into bands according to type/size so that the end result is a reasonable reflection of relative values.

Banding

Band	Percentage	Type of home
A	67%	Studio flats
B	78%	One- and two-bedroom flats
C	89%	Three-bedroom flats; terraced houses; small semi-detached houses
D	100%	Large terraced houses; three-bed semi-detached houses
E	131%	Larger semi-detached houses; smaller detached houses
F	163%	'Normal' detached houses
G	196%	Large detached houses
H	245%	Very large detached houses

We then establish the site premium of a sample of homes in each Band in each valuation area and interpolate the site premium in each Band in each area. Where data on rental values is patchy, the implied rental value can be calculated by multiplying recent selling prices by 5.5% (the typical rental yield for the whole country) and adding on existing Council Tax.

The end result will be that the assessed site premium of the smallest studio flats in an area would be two-thirds as much as the assessed site premium of a typical three-bed semi-detached house in the same area; the tax on the largest detached houses in the same area would be twice as much, etc.

Step 2. Number of Band D homes

The total assessed site premiums for all residential and commercial land are then added together for the whole country (calculated in Part 4 as £21,971m).

23. https://beta.gov.scot/news/authority-tax-dwellings-and-tax-base-figures-for-2017/
24. http://www.scrol.gov.uk/scrol/metadata/maps/edinburgh_s.pdf
25. http://www.zoopla.co.uk/house-prices/browse/eh1/?category=residential&q=EH10&search_source=nav
26. https://www.ros.gov.uk/__data/assets/pdf_file/0009/78858/House-type-by-LA-Jul-Sep-17.pdf

Step 3. Revenue per local authority

It is decided how much to collect in total from AGR (calculated in Section 1 as £14,432m) and the required tax rate is calculated (65% in this example).

Step 4. Compute other bands

The required tax rate of 65% is applied to the assessed site premium of each home and all commercial premises. Council Tax/Non-domestic Rates registers are updated accordingly and collection continues as under the present system.

Individually surveyed site values

Site rental values will be assessed regularly: every year or two. Our proposed quick valuation method provides fair and accurate calcluations of liabilities (much fairer than, for example, the current Council Tax workings). Absolute accuracy is however available via individual site surveys by professionals. Surveyors habitually value sites minus improvements such as buildings. With our quick valuation technique in operation, even more accurate and fair valuations can be achieved later by government surveyors working to practical schedules.

Non-domestic Rates/AGR on commercial land

There is already a system in place for Non-domestic Rates and the most recent revaluations were in 2017.[27] All that is required is:

- To establish a baseline for the areas with the lowest rental values, where the location element can be assumed to be zero. This amount is then deducted from the rental values of other areas to establish the location element of those areas, to which the tax rate or 'poundage' is applied, and
- To update the registers so that bills are sent to the owner rather than the tenant/occupier.

To illustrate the second point, if the cheapest office space in Scotland is £10 per square foot (incl. Non-domestic Rates) and the most expensive in the Edinburgh financial district is £80 psf, the AGR element in the Edinburgh financial district is £70 psf (by subtraction). The AGR payable by the owner of the cheapest office space would be £zero and the AGR payable by the owner of the office space in Edinburgh financial district would be £45.50 psf (65% x £70 location element of the rent).

In an ideal world, and in the longer term, the AGR rate for land in commercial areas, and especially in town centres would be levied on the basis of the area of a plot rather than what is used for or the size of the building on it. In other words, the AGR bill for a one-acre car park in a city centre would be the same as a large office block on an adjoining one-acre plot. However, this will have to be phased in, and as a result, owners of car park sites will build out to the maximum permissible to be able to collect enough rent to pay the AGR. Clearly, if the use of a site is restricted (it is a listed building, it is above a tunnel or below power lines etc) then the AGR on that site would be reduced accordingly.

The AGR system would apply to residential and commercial premises, so there would have to be some interpolation between the two valuation methods. For example, if there are two three-storey buildings of similar size on a high street, and one is part residential/part commercial and the other is wholly residential, the AGR bill should be the same for both.

For owner-occupied business premises, this is the end of the matter. Over half of commercial premises are rented. Non-domestic Rates are payable by the occupier not the owner (unless a building is vacant) but AGR would be payable by the owner (for administrative simplicity if nothing else). To smooth the transition, we suggest that the landlord would be permitted to add the lower of the old Non-domestic Rate bill and the new AGR bill to the contractual rent, so tenants benefit where there is a reduction and landlords bear any increase.

27.http://www.gov.scot/Topics/Government/local-government/17999/11199

6. Construction and development

We did not include the additional fees and charges incurred by property developers in the Table in Section 1. Statistics are hard to find, many of these fees and charges are collected by local authorities and some consist of non-cash contributions, such as improvements to local roads or affordable housing quotas.

The list of such fees, charges and contributions (all of which are devolved) includes:

- LBTT incurred when land is acquired and when finished units are sold
- Planning fees and charges
- S106 agreements
- A possible introduction of the Community Infrastructure Levy (as in England and Wales)
- The affordable housing allocation, which basically means that a certain number of new residential units must be sold to a registered housing provider for a very low profit margin. This has a similar effect to levying a very high tax on some units.

As all these costs are incurred only when a development goes ahead, they currently encourage owners of suitable sites to keep those sites out of use for as long as possible in the hope of banking a larger capital gain in future. Land banking is not in the public interest.

If all these contributions were scrapped and instead AGR were applied to suitable sites, at the latest *when planning permission is granted* (i.e. at the instant in which society itself creates the new site value), this would encourage those sites to be developed as soon as possible to minimise the period during which the owner is liable to pay the AGR with no corresponding income or capital gain.

We recommend that the AGR applied to a site with planning permission is levied at exactly the same rate as the AGR will be on the finished units. In the absence of accurate figures on actual and potential revenues, we cannot say whether this will increase or reduce total revenues. The big advantage is that local authorities will be able to match the amount of new construction to what is needed in their areas by imposing or waiving the AGR charge as and when required to speed up or delay development.

Collecting site rental values as revenue works in the public interest to discourage land banking and urban sprawl.

PHOTO © J DIGNEY

7. Other administrative matters

- Local authority housing will automatically fall into the lower bands and the amount due can be collected together with the rent. The amounts now paid out as Local Housing Allowance or Council Tax Reduction can be merged into a *single system* applied to individual households on a case-by-case basis.
- Leaseholders would be allowed to claim relief for any ground rent they have to pay to a freeholder, and freeholders would be assessed to 65% AGR on their ground rent income.

There would also have to be systems in place to:

- Allow pensioners who have insufficient income to defer paying the AGR until they die and the house is sold. Such a system was in place in Northern Ireland for several years (it was scrapped because so few people applied), so there is no need to reinvent the wheel. The cumulative AGR bill would be allowable as a debt when calculating the value of an estate for Inheritance Tax, so this means an *increase* in Scottish tax receipts and a *saving* in non-devolved tax payments on Scottish estates.
- Give relief to the short term unemployed, who make up about 2% –3% of the working age population. The simplest option would be to give a time-limited AGR exemption or discount to people who are made redundant, provided they are actively seeking work and accept a new job within the specified period.

Although important to the individuals concerned, the precise details of these two reliefs do not need to be thrashed out in advance and they can be introduced and refined over time.

Reducing income tax rates has other implications:

- Those paying the zero rate of income tax would not be entitled to tax relief on pension contributions but similarly, pension income in the Scottish basic rate band would not be liable to income tax (i.e. it would be liable to Scottish income tax at 0%). Those paying tax at the higher rate (20%) would continue to receive the normal tax credit on contributions and pension income falling into the higher rate of Scottish income tax would be taxed at 20%.
- Reducing the basic rate of income tax would similarly reduce the amount clawed back from the incomes of lower earners who are entitled to means tested benefits such as Universal Credit and Working Tax Credits.

Costs of implementation

There will be little in the way of initial costs of adapting the existing Non-domestic Rates and Council Tax systems. Ongoing administration costs will be the same, so *the true cost is more or less nothing*. The compliance costs to businesses and households will be virtually zero.

Cost savings

This will also save the costs of administering the LBTT and most of the costs of a separate Scottish income tax system. Scottish income tax is currently higher than the main UK rates for many taxpayers, requiring additional effort to identify taxpayers who shift their income to elsewhere in the UK. If Scottish income tax rates were lower for all taxpayers, this would not be an issue.

Local Housing Allowance and Council Tax Relief can be merged into a *single* system, as tenants will not be directly liable to pay AGR.

8. Economic impact

Taxes on land values have many advantages over taxes on income (earnings, profits or output):

- It is easily observable that taxes on earnings and taxes on transactions in land are a drag on the economy, so reducing income tax and scrapping the LBTT would be a stimulus.
- Conversely, taxes on land values stimulate the economy by encouraging more efficient use of land and buildings and depressing land prices, thus reducing the amount of money wasted on servicing mortgages and freeing it up for more productive investment instead.
- In the many countries which implemented taxes on land values, this led to a *virtuous circle*: more efficient use of land and buildings leads to higher rental values overall, which leads to higher tax revenues which can be ploughed back into making places more attractive for businesses and households.
- Revenues from taxes on earnings fall during a recession. The amount collected in AGR would be *inherently stable*. Even if a revaluation showed that total rental values had fallen, the 65% rate suggested here can then be increased slightly and total revenues – required to fund essential services regardless of the state of the economy – would remain constant.
- Taxes on land values such as AGR have low compliance costs for the taxpayer and low collection costs for the authorities. They are a predictable and steady revenue stream and have the highest collection/payment rates of all taxes, especially if they are collected from the registered owner rather than the occupier or tenant.
- Shifting taxes from earnings to land values is good for the balance of payments. This reduces the amount of money being taken out of the country by 'foreign' mortgage banks and landlords, increases households' overall net earned income (which is most likely spent domestically) and encourages 'foreigners' to invest more in businesses in Scotland rather than simply buying land from other 'investors'.

Estimating the impact on GDP growth

The *Laffer Curve* is an estimate of how much tax can be collected at different tax rates, taking into account concepts such as "Taxpayer Income Elasticity", avoidance/evasion, businesses and jobs relocating to other countries and the *deadweight losses* i.e. economic activity which no longer takes place because the tax system makes it unviable (AGR is immune to deadweight losses).

Based on the model used by HM Treasury and the Scottish Government, the curve can be plotted as per Figure 1 below.

On that basis, the revenue maximising rates of taxes on output (profits and wages) is about 60%. However this is not the end of the story as it ignores the impact of these taxes on GDP. A 60% total tax rate depresses total GDP by 20%. So if the initial GDP in a tax-free environment is £100, a 60% tax rate depresses this to £80 and as a result, the 60% tax rate only raises £48. Worse still, a large part of tax revenues now have to be spent on alleviating the resulting unemployment and trying to stimulate the economy in the worst affected areas.

Using the same model, the impact on GDP is illustrated in Figure 2 below.

At tax rates up to 30% or so, the impact on the economy is minimal, but at the short-term revenue-maximising level of 60%, the economy is depressed by 20% from its potential – in the short term.

High tax rates on earnings also reduce long term growth rates, so the longer high rates are in place, the bigger the gap between potential and actual GDP.

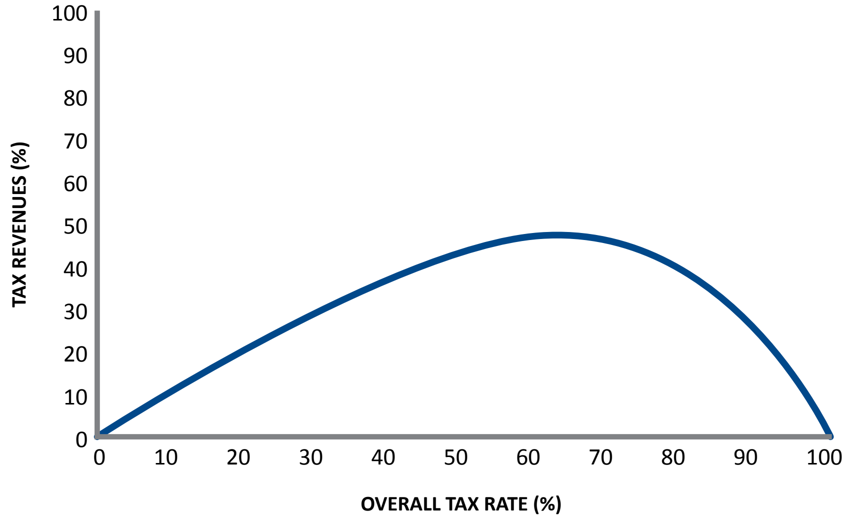
The Scottish government only has power to vary rates of Income Tax and not the rates of the two more damaging taxes on the economy – National Insurance and VAT. Half of VAT receipts in Scotland are assigned to the Scottish government's budget from April 2017 onwards,[28] but it has no power to vary the rate of VAT.

VAT takes one-sixth of the 'value added' by a business, including the value added by employees i.e. *VAT is a tax on wages and business profits*. National Insurance is a further direct tax on wages, which the Scottish government does not have the power to vary.

The current combined rate of tax on a basic rate employee in the private sector (most of which is VAT-able) is 50.2%.

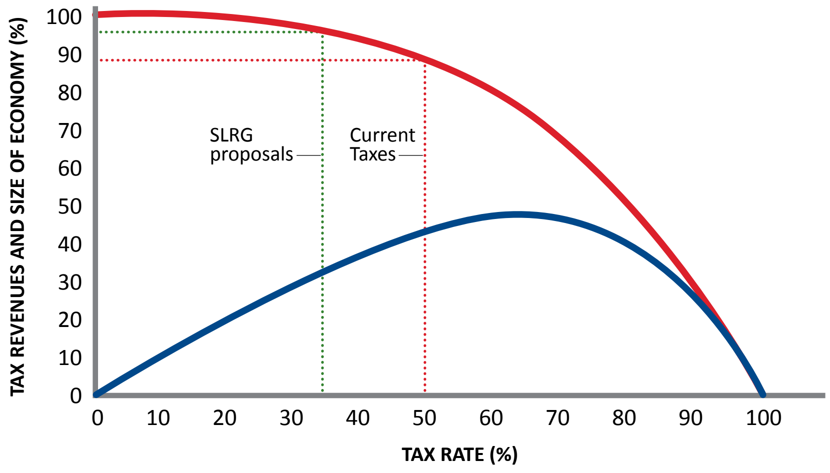
28. http://www.bbc.co.uk/news/uk-scotland-scotland-politics-35866776

Figure 1. Levels of collectable revenue according to the 'Laffer Curve'



The Laffer Curve helps policy makers by revealing the level of Deadweight Losses integral with each tax option on offer...

Figure 2. Tax revenues (blue) and size of economy (red)



...allowing accurate prediction of the economic impacts likely to be experienced from each tax chosen by government.

The choice before MSPs, then, is to continue suppressing the Scottish economy by 13 % a year or to boost the Scottish economy by 9% a year by adopting the SLRG proposals (see the calculations laid out below).

Calculation: current tax system

(The Scottish economy is depressed by 13%)

To earn £100 net of VAT and Employer's NIC, an employee has to add value of £136.56 (£100 wages, plus 13.8% Employer's NIC = £113.80 plus 20% VAT = £136.56). The employee will receive £100 less 12% Employee's NIC less 20% income tax = £68. Net wage £68 divided by value added £136.56 = 49.8%, implied tax rate 50.2%.

With a tax rate of 50.2% *the economy is depressed by nearly 13%*. So if potential GDP is £100, actual observed GDP is only £87.

With a zero rate of basic rate income tax, the combined rate of tax on a basic rate employee is 35.6%.

Calculation: SLRG proposed tax system

(The Scottish economy will grow by over 9%)

To earn £100 net of VAT and Employer's NIC, an employee has to add value of £136.56 (£100 wages, plus 13.8% Employer's NIC = £113.80 plus 20% VAT = £136.56). The employee will receive £100 less 12% Employee's NIC = £88. Net wage £88 divided by value added £136.56 = 64.4%, implied tax rate 35.6%.

With a tax rate of 35.6% the economy is depressed by just under 5%. So if potential GDP is £100, actual observed GDP is £95.

All things being equal, *the economy would grow by over 9%* if the basic rate of income tax were reduced to zero (£95 compared to £87), the equivalent of an average pay rise of £2,000 for all employees.

Positive demographic impacts

Reducing income tax significantly (compared to the rest of the UK) would make Scotland far more attractive to medium and higher earners, reducing emigration to and increasing immigration from the rest of the UK.

Introducing AGR would nudge people who live in houses that are too big for them to trade down, freeing up space for younger families and those who want to trade up.

It has also been observed that internationally mobile people with very high incomes are very sensitive to income tax rates but are happy to pay taxes based on the value of their home. Switzerland's lump-sum taxation and the UK's Annual Tax on Enveloped Dwellings are good examples of wealthy individuals *voluntarily* paying land/property value taxes in preference to declaring incomes or assets for tax purposes.

'Look north for greenfield growth'

According to Savills monthly report (Jan 18): "Over the last 12 months, greenfield land values in Scotland…have grown faster than the national average, increasing by 4.2%… compared with 1.7% for the UK… House prices in [Scotland] are more affordable and we forecast them to grow by 17-18% over the next five years, compared with 14% for the UK."

www.savills.co.uk/research_articles/141285/226688-0

This translates into a rising challenge for the folk of Scotland as house prices take off. A speedy endorsement of the SLRG proposal by the Scottish Government would cause the land market to moderate, making life easier for families in need of affordable housing.

Housing market

Land taxes such as AGR encourage people to sell empty and derelict buildings or second and holiday homes to somebody who wants to live there, as the person who wants to live there is getting much better value for money.

Some households will decide that they would rather trade down to a smaller house or move away to save AGR, and young families and employees will trade up to home which is larger and/or closer to where they work. Families' needs change over time, and housing is put to more efficient use every time people move home.

Moving to AGR would also help reverse the fall in owner-occupation levels – the main reason for the rapid increase in owner-occupation levels after 1945 was not so much that owner-occupation was treated favourably but that rental income was taxed very heavily, and with Domestic Rates and Schedule A taxation, *there was a disincentive to hold on to homes which were not in use*.

A tax on the value of housing tends to push down prices but removing the LBTT enables vendors to charge slightly higher prices. As rents and house prices are ultimately dictated by the amount of disposable income people have, the income tax reduction would also tend to push up prices.

However, the progressive nature of AGR would tend to *stabilise* the housing market. Volatility in house prices is a consequence of the land market, not the bricks and mortar which inevitably depreciate over time. The steep rises and periodic dramatic fluctuations in land values are not mirrored by building costs which have been much steadier.[29] The disastrous boom/bust cycle is very much a consequence of this volatility in the land market, and AGR would be a key policy in dampening or eliminating it.[30]

Land use

Taxes on land values are an incentive to owners to keep their buildings in the best possible condition and encourage households and businesses to make more efficient use of land and existing buildings. So there would be an emphasis on renovation rather than new construction; and construction will be in urban areas rather than on the green belt, which is good from an economic and an environmental point of view (shorter commute journeys, more use of public transport).

Most tenant businesses will be entirely unaffected by the change, some will benefit. There will be some effect on owner-occupier businesses in high value areas; the profitable ones will continue to thrive, as the owners will save as much in income tax as they lose on higher Non-domestic Rates. The less profitable ones, which are sometimes run as a quasi-hobby will find it more profitable to make way for growing and more dynamic businesses by renting out or selling their premises.

29. https://landcommission.gov.scot/wp-content/uploads/2017/12/Land-Lines-Discussion-Paper-Housing-Land-Market-Dec-2017.pdf (Pages 3 & 4).
30. Fred Harrison: *Boom Bust – House Prices, Banking and the Depression of 2010* (Shepheard Walwyn).

At present, in most areas, the Non-domestic Rates bill on business premises is much higher than the corresponding Council Tax on a similar sized residential building, meaning that there is an under-supply of commercial premises and over-supply of residential. Applying the same tax rate for commercial and residential uses would remove this distortion.

The LBTT on the other hand discourages efficient use of land and buildings housing as it makes it more likely that owner-occupiers (households or businesses) will stay put in a home or premises that are too big, too small or in the wrong location, which is why it should be abolished without replacement.

Impact on individual households

Our recommendations are long-term recommendations, to be phased in over a minimum of five years. All figures are estimates and although it is clear that the Scottish economy would grow much more quickly, we do not know how much how fast and what the impact on household incomes will be. We have therefore not prepared or provided before and after calculations to show 'winners' and 'losers'.

Suffice to say, working age households in a home that is typical for their income bracket – especially tenants – will be the main winners, and landlords and those hoping to inherit high value housing will be worse off.

9. Local Authority Finance

Local authorities' responsibilities are fairly clearly defined and people everywhere have similar needs, so *per capita* spending levels on the mainland are within a narrow band.[31] They are much higher on the Western Isles, the Shetland Islands, the Orkney Islands and Argyll & Bute (three per cent of the population).

Total local authority revenue and capital spending in 2015-16 was about £12,500m. Locally collected revenues were £4,500m and the balance was funded out of a general revenue grant (i.e. out of general taxation).

Under the AGR system, local authorities would be financed entirely out of AGR receipts of £14,000m. The Scottish government would retain the overall surplus (£1,500m) for national items of spending (such as welfare).

Local authorities whose AGR receipts exceed approved spending levels would pay the surplus into a pool, which would be redistributed to local authorities with insufficient AGR receipts.

31. http://www.gov.scot/Publications/2017/02/1688/338785

10. Scottish rents by region

The only statistic we have been able to find show mean rents for Broad Rental Market Areas[32] which we have matched with the average selling price of a semi-detached house[33] in each constituent local authority area:

There will be a significant variation between the lowest and highest rents in each Broad Rental Market Area. For example, Greater Glasgow includes Glasgow City, where the average price of a semi-detached house is £173,367 and East Renfrewshire, where the average price of a semi-detached house is nearly 50% higher. There will be a similar difference in rental value between the two.

Mean Scottish rents for broad rental market areas

Broad rental market area	Mean monthly rent for three-bedroom home	Local Authority	Average selling price semi-detached house
Aberdeen and Aberdeenshire	£930	Aberdeen City	£238,214
	£930	Aberdeenshire	£171,936
Argyll and Bute	£666	Argyll and Bute	£149,828
Ayrshires	£579	East Ayshire	£121,591
	£579	North Ayrshire	£115,459
	£579	South Ayrshire	£157,014
Dumfries and Galloway	£514	Dumfries and Galloway	£126,633
Dundee and Angus	£702	Angus	£150,640
	£702	Dundee City	£167,572
East Dunbartonshire	£859	East Dunbartonshire	£232,921
Fife	£617	Fife	£160,366
Forth Valley	£678	Clackmannanshire	£134,164
	£678	Falkirk	£133,371
	£678	Stirling	£183,230
Greater Glasgow	£915	East Renfrewshire	£253,876
	£915	Glasgow City	£173,367
Highlands and Islands	£672	Highland	£149,327
	£672	Moray	£138,790
	£672	Western Isles	£95,627
	£672	Orkney Islands	£145,450
	£672	Shetland Islands	£123,511
Lothian	£1,112	East Lothian	£228,069
	£1,112	Edinburgh, City of	£279,017
	£1,112	Midlothian	£206,676
North Lanarkshire	£564	North Lanarkshire	£120,412
Perth and Kinross	£700	Perth and Kinross	£193,392
Renfrewshire/Inverclyde	£643	Inverclyde	£134,044
	£643	Renfrewshire	£164,289
Scottish Borders	£546	Scottish Borders	£182,417
South Lanarkshire	£637	South Lanarkshire	£148,606
West Dunbartonshire	£575	West Dunbartonshire	£121,025
West Lothian	£691	West Lothian	£134,917

32.http://www.gov.scot/Publications/2016/11/3295/9
33. https://www.ros.gov.uk/__data/assets/pdf_file/0009/78858/House-type-by-LA-Jul-Sep-17.pdf

MSPs can now restructure tax to boost the Scottish economy by 9% a year

SCOTTISH LAND REVENUE GROUP

www.slrg.scot
www.facebook.com/AGRforScotland
www.twitter.com/agr_slrg