

Annual Ground Rent - The Fair System to Replace Council Tax

The Commission on Local Tax Reform was established jointly by the Scottish Government and the Convention of Scottish Local Authorities in 2015 to assess the evidence that would enable a decision to be made on a new system to replace the Council Tax. Since its inception in 1993 the Council Tax has been based on 1991 house prices and was described as “not fair, progressive or locally empowering”.

In the invitation to download its Final Report, the Commission on Local Tax Reform says, ‘The current system of Council Tax must end.’ The Commission is unable to decide what should replace the Council Tax because ‘there is no one ideal local tax.’ The best it can do is suggest that the political parties select, from the three options considered in its deliberations, a ‘broad based’ system of local taxation in preparation for the elections in May.

There are, in the Report, several references to ‘fairness’, ‘progression’, ‘stability’ and ‘efficiency’ which might indicate criteria by which a suitable system of taxation could be judged but there is no mention of their relative merits or importance.

The Commission failed to comment on the most important feature of any tax or charge- *it should not hinder employment or trade and so reduce the total fund from which the tax or charge must be paid.* The second in importance is that, *for fairness, the amount of tax or charge levied is related to the ability to pay and for justice, earnings should not be taxed whilst any unearned rental income is left untaxed.* Thirdly, *a tax or charge should be cheaply and easily collected, so that the costs of administration are as low as possible.* The fourth feature is that *there should be no opportunity for avoidance or evasion.*

The analysis by the Commission of the merits and disadvantages of three taxes:- Income Tax, Council Tax and Land Value Tax, clearly shows that the Income Tax should not be included in any new system of local taxation. It fails to meet any of the criteria for a suitable tax. The commission’s report says that a Local income Tax is favoured by about a third of those who gave evidence and that they understood it. The last part of this statement cannot be true. It is avoidable and evadable, especially by the rich, it is expensive to administer, very complicated and difficult to understand, even by chartered accountants. Its impact on employment and trade is so deleterious that at least one pound is lost from the

economy for every pound taken in Income Tax. That people are familiar with it is its only merit.

The Council Tax, based on the market price of houses, has no merits which are not shared with Land Value Tax (LVT) which is best described as Annual Ground Rent (AGR): but unlike AGR, it has the disadvantage of deterring improvements to houses which would shift them to a higher tax band.

It also fails to encourage the development of suitable vacant land nor does it discourage land banking. There is wider variation in house prices within a locality than there is between land prices, which make valuations more difficult and expensive.

AGR has the big advantage of stimulating development, and employment associated with development. This will increase the production of wealth, and the rental value of land will rise but its market price will fall because speculators and land hoarders are discouraged. The current relationship between the rental value of land and its market price will no longer apply. The ability of young people to afford a house will be greatly improved. Without a fall in land prices, the price of houses will never be affordable.

The experience of countries like Denmark shows that a revenue system based on the value of land can be made to work and is easily administered with frequent revaluations.

A form of AGR; a Land Tax, has been used previously in Scotland. It was the main source of revenue prior to the 1707 Union of Parliaments and continued for several years afterwards but was gradually abolished by the landowners in the Westminster Parliament, who changed the tax laws to pass the burden of paying taxes onto working people so that the barons and lairds could enjoy the unearned rental value of the land. We are often told that we live by the 'Law of the Land' but it would be more accurate to say we live by the 'Law of the Land Owners'.

AGR could simply replace the Council Tax at current levels of local government revenue collection, but its simple application would more equitably distribute the burden of costs among those who are required to pay; but if it is decided that the amount of revenue collected locally should supply more than the 12% currently obtained from Council Tax to improve local democracy and accountability, the revenue from ground rents, what we call AGR, could be increased and the National Income Tax reduced.

I am often asked why I advocate the collection of the AGR to fund the necessary functions of government. My wife and I own a farm in Fife, of about 650 acres, its market price will fall markedly if AGR is introduced. I estimate its current market price to be about £4m, which is above £3m more than we paid 23 years ago. The £4m price tag is no advantage to us at all because we do not want to sell it. The farm's earning capacity is not increased by this high price.

In fact it is a disadvantage to us in our desire for the next generations of our family to continue farming. If our son has to buy out his brothers and sister he will have to sell the farm to do so. If the price of land was close to what its productive capacity would justify, there would be no problem.

We have not earned the £3m by which the market price has risen, it is the result of the perverse tax system, which favours the ownership of landed property and discourages employment and enterprise.

I hope that when the NFUS discusses the Land Reform Bill that it takes into account the problem of the high price of farmland and the reasons why it is so high. I am not concerned that the market price of our farm will fall because we will gain from the reduction in the harmful taxes, which inhibit us now.

We would like to have the opportunity to be reasonably rich from by farming our land, not to be unreasonably rich by selling our land for an unreasonably high price.

I know I am not the only farmer in Scotland who favours the collection of AGR by the government. I am probably the only one who is prepared to stand in public and say so.

The SNFU also uses the principle of AGR when it charges membership fees per unit area according to the quality (which NFUS calls 'capability') of the land farmed.

We agree completely with the concluding statement of Commission that: "This is an opportunity that must not be missed".

