Applying Annual Ground Rent (AGR) – Paper Two

Summary:

- The current taxation systems are complicated, disincentive and open to tax evasion.
- Propose Annual Ground Rent (AGR) to replace Council Tax.
- Propose Income Tax be reduced by 3 pence in the pound.
- Propose an Annual Ground Rent (AGR) rate of 5% payable on Land Valuation.
- Annual Ground Rent (AGR) to be charged on all land including derelict and vacant plots.
- **Case One**: Low income, high-density dwelling – **Savings of £508.**
- **Case Two**: Average income, average price dwelling – **Savings of £171**.
- **Case Three**: High income, high price dwelling – **Pay additional £5664**.
- Annual Ground Rent (AGR) could raise **£3.15 billion** to fund local government services.
- Annual Ground Rent (AGR) leaves **£342 millions** more money in taxpayers' pockets.

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The Public Value of Land is a combination of the natural resources supplied free by nature together with the value of services generated by society. This "Public Value" of land can be compared with Capital Gains on Property.

At one time, everyone relied only on the productive rent of land with the user of the land directly passing on a portion of the rent to benefit the wider social needs.

However, the big landowners had the wealth and the power to influence government to progressively change the law. Laws were gradually introduced creating new taxes on wages and profit on enterprise that eventually totally replaced land rent. Private landowners were thus able to divert and retain for themselves the "Public Value" accruing from the increasing value of land.

All land, whether on Sauchiehall Street or on the tap o' Ben Nevis has an economic or aesthetic rental value. The scale of rent measures the availability of services and value at each location.

To replace Council Tax and return the "Public Value" of land to the Common Good the proposed revenue system is termed Annual Ground Rent (AGR) and should be charged on the assessed value of each plot of land. This valuation will take into consideration the location, type, usage and social desirability of the plot of land and reflect its market value.

The Office of National Statistics quotes the land area of Scotland (excluding the seabed) as 77,800 square kilometres, of which some 6% is in urban usage.

Paper One proposed that the area in urban usage, amounting to approximately 4,600,000,000 square metres, when charged at an average Annual Ground Rent (AGR) rate of £0.80 per square metre could generate some £3.68 billion to fund Local Authorities.

Paper Two illustrates how Annual Ground Rent (AGR) charged on a fixed percentage rate of 5% on the Valuation of the land under all urban and rural dwellings, including vacant and second homes, could generate **£3.149 Billion** to replace the Council Tax of **£1.9 Billion and reduce Income Tax by £342 millions**.

The increasing value of land is created by our expanding need for homes, infrastructure and services. At present the private owners of land retain the increased “Public Value” but under Annual Ground Rent (AGR) the “**Public Value of land”** is returned to the public domain to meet the cost of the public services required by society in general.

As a first step it is proposed that **Annual Ground Rent (AGR) replaces Council Tax plus 3 pence in the pound off Income Tax.**

According to the most recent Government Expenditure and Revenue Scotland (GERS) report, Income Tax amounting to £11.41 billion was raised in Scotland. **A reduction of 3 pence in the £ off Income Tax would leave some £342 millions per year more money in taxpayers pockets to assist local economies.**

It is proposed that the Annual Ground Rent (AGR) is collected and retained by **Local Authorities,** using their current collection system, to fund essential local services and infrastructure.

Council Tax is expected to generate £1.9 billion in 2015/16.
Business Rates are expected to generate £2.8 billion in 2015/16.
Local Authorities received top-up grants of £10.8 billion from Scottish Government in 2014/15.

The higher the Public Value then more Annual Ground Rent (AGR) will be collected as a civic contribution to fund public services – a progressive and much fairer system than the current taxation systems that disproportionally penalise those on lower incomes.

Since land is fixed in place and cannot be moved then tax avoidance is eliminated and since all land could incur an Annual Ground Rent (AGR) payment then the overall base for raising funding for public services will increase.

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The lack of a complete Land Register in Scotland (26% complete), in contrast to other countries such as England and Denmark (100%), necessitates the need for reasoned assessments based on available commercial data regarding the wide variety of land values across both urban and rural dwellings ground plots.

The National Records of Scotland quote that up to the end of year 2014 there was a total of 2.54 million dwellings in Scotland, including 73,500 vacant and 28,500 used as second homes.

The current distribution of Council Tax applies to all dwellings with 61% in bands A to C, 26% in bands D to E and 13 % in bands F to H.

Bands A to C apply on properties with a value of up to £45,000 an **average of £36,000**. (1,549,400 dwellings)

Bands D to E apply on properties between £45,000 and £80,000 providing an **average of £62,500**. (660,400 dwellings)

Bands F to H apply on properties between £80,000 and over £212,000. Assume an **average of £200,000**. (330,200 dwellings)

The Property prices quoted in the Council Tax bands are a combination of two parts, one being the price of the dwelling and the second being the value of the land (ground).

In practice all plots of land (ground) used for dwellings will require to be assessed by a Land Valuation Assessor on a regular basis (say two yearly) – the Valuation applying only to the land not the dwelling.

Ground Valuation & Fixed Percentage Rate of 5%

Across Scotland the proportion of the Land Valuation (Cost) within the "Property Value (Selling Price)" varies between 15% to above 55%, dependent on location, proximity of schools, shops, recreational facilities, roads, transport links and other socially required infrastructure.

Assuming a Land Valuation of 20% of the Property Value (that is on the lower end of the valuation scale) then applying this percentage to the average band valuation results in mean land valuations of:

*Land Valuations on £36,000 @ 20% = **£7,200.***
*Land Valuations on £62,500 @ 20% = **£12,400**.*
*Land Valuations on £200,000 @ 20% **= £40,000**.*

Applying a 5% rate of Annual Ground Rent (AGR) to the above Land Valuations (LV) provides contributions of:

*5% AGR charge on £7,200 is **£360.***
*5% AGR charge on £12,400 is **£620**.*
*5% AGR charge on £40,000 is **£2000**.*

Total Annual Ground Rent (AGR) is £3.1496 billion.

1549400 (61%) dwellings @ £360 (AGR) = £914,400,000.
660400 (26%) dwellings @ £620 (AGR) = £1,574,800,000.
330200 (13%) dwellings at £2000 (AGR) = <u>£660,400,000.</u>
£3,1496 millions

Notes:
In application, the potential Annual Ground Rent (AGR) civic contributions will be higher as no allowance has been made for inflation or for the additional properties completed since December 2014.

No allowance is made for the higher proportion of high cost properties completed after December 2014.

Each plot of land (ground), or groups of plots developed in a similar style, will require to be individually valued by a Land Valuation Assessor.

Quantity Surveyors accredited by the Royal Institution for Chartered Surveyors carry out assessments in the commercial market.

Annual Ground Rent (AGR) is also known as Land Value Tax (LVT) or Land Value Rent.

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The following examples are based on applying Annual Ground Rent (AGR) on a fixed percentage rate of 5% of the Land Valuation plus a reduction in Income Tax of 3 pence in the pound.

Case One: A married couple with two children, with both children at school, living in a house on a high-density housing estate in Glasgow. One adult on a Scottish Living Wage and the second adult unemployed paying Annual Ground Rent (AGR) will save **<u>£508.</u>**

a) Wage earner on Scottish Living wage of **£17,160**.
  £8.25 x 40 hours x 52 weeks = £17,160.

a) Allowances for two children: **£1788** (1st -£1076, 2nd -712).

b) Wage earner tax payable: **£1669** on £8348.
  Wage - £17,160.
  Plus Child Allowances - £1,788.
  Less Personal allowance - £10,600.
  £8348 @ 20% is £1669.

c) Wage earner National Insurance payable: £**1819.**
  £17160 @ 10.6% - £1819.

d) Value of House is **£34,000**.
  Cost to build - £14,500 (43%)
  Profit Margin - £8,500 (25%).
  Ground Valuation is ***£11,000*** *(32%).*

e) Council Tax payable on Band B property is **£943.44**.

f) Water charge is £141.68 and Sewerage Charge is £164.43 **(£306**).

g) Annual Ground Rent (AGR) is **£550.**
  Annual Ground Rent rate of 5% of £11,000 is £550.

h) Wage earner current outgoings are **£4737.**
Council Tax - £943.
Water & Sewerage Charges - £306.
Income Tax - £1669 (£8348 @ 20%).
National Insurance - £1819.

i) AGR replaces Council Tax and PAYE is reduced by 3 pence in the pound:
Adjusted main earner outgoings are **£4352.**
Annual Ground Rent (AGR) - £550.
Water and Sewage charges - £306.
Income Tax - £1419 (£8348 @ 17%).
National Insurance - £1819.

k) Potential savings is **£508.**
Council Tax @ *£808 – AGR @ £550 is £258.*
Income Tax £1669 - £1419 is £250.
£258 plus £250 is £508.

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Case Two illustrates **savings of *£171*** for an average family, earning average wages, owning their average sized house**,** in a town in the mid belt of Scotland**.**

A Married Couple with two children, with both children at school, living in a modern average 3-bedroom house in a town in **East Lothian**.

b) Primary wage earner on national average wage of £**27,045**.

c) Spouse on national average part-time wage of £**9421**.

d) Allowances for two children: £**1788** (1st -£1076, 2nd -712).

e) Primary wage earner Income Tax payable: **£3647.**
Primary earner - £27,045
Plus Child allowances - £1788
Less Personal allowance - £10,600.
£18,233 @ 20% is £3647.

f) Primary wage earner National Insurance payable: **£2866**
£27045 @ 10.6% is £2866.

g) Spouse pays no Income Tax on £9421.

h) Spouse National Insurance payable: **£567.**

i) Council Charge payable on Band G (£106K to £212K) property is **£1862.**

j) Water Charge of £321.9 and Sewerage Charge of £373.65 (£**695**).

k) National Average Value of 3-bedroom Property is **£168,800**.
House: Cost to build -£94,500 (56%)
Profit Margin: £37,300 (22%).
*Local Land price for 1/8 acre is **£36,000** (21%).*

l) Average Annual Ground Rent (AGR) for plot is **£1800**.
Annual Ground Rent rate of 5% of £36,000 is £1800.

m) Main Earner current outgoings are **£9070**.
Council Tax - £1862.
Water and Sewage charges - £695.
Income Tax - £3647 £18,233 @ 20%).
National Insurance - £2866.

n) AGR replaces Council Tax and PAYE is reduced by 3 pence in the pound:
Adjusted main earner outgoings are **£8899.**
Annual Ground Rent - £1800.
Water and Sewage charges - £695.
Income Tax - £3538 (£18,233 @ 17%).
National Insurance - £2866.

m. Potential savings is **£171.**
Council Tax @ *£1862 – AGR @ £1800 is £62.*
£3627 x 3% is £109.
£62 plus £109 is £171.

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Case Three illustrates an additional cost of **£5,664** for a married couple with two school age children, earning a high income, and living in a high-cost home located in Westhills in Aberdeenshire. The primary wage earner works full time and the spouse works part time.

a) Primary wage earner on wage of **£97,000.**

b) Spouse on part-time wage of **£10,421**.

c) Allowances for two children: **£1788** (1st -£1076, 2nd -712).

d) Primary wage earner Income Tax payable: **£28,918**.
Primary wage - £97,000.
Plus Child allowances - £1788
Less Personal allowance - £10,600
Tax payable on £88,188.
£31,785 @ 20% = £6357 + £56,403 @ 40% = £22,561 (£28,918).

e) Primary wage earner National Insurance payable: **£13,250.**
£97,000 @ 10.6% is £10,282.

f) Spouse pays no Income Tax on £10,421.

g) Spouse National Insurance payable: **£609.**
£10,421 @ 5.85% = £609.

h) Council Charge payable on Band H (over £212K) property is **£2282.**

i) Water Charge of £386.28 and Sewerage Charge of £448.38 (£834.00).

j) Size of plot for 5-bedroom property is **1/6 acre (675 sq. metres**).

k) Value of Property is **£445,000**.
House: Cost to build -£178,000 (40%)
Profit Margin: £89,000 (20%).
*Land price is **£178,000** (40%).*

l) Annual Ground Rent (AGR) for plot is **£8900**.
£178,000 @ 5% is £8900.

m) Main Earner current outgoings are **£45,284**.
Council Tax - £2282.
Water and Sewage charges - £834.
Income Tax - £28,918 £31,785 @ 20% + £56,403 @ 40%).
National Insurance - £13,250.

n) AGR @ 5% replaces Council Tax and **reduce PAYE by 3 pence** in the pound:
Adjusted main earner outgoings are **£50,948.**
Annual Ground Rent - £8900.
Water and Sewage charges - £834.
Income Tax - £27,964. (£31,785 @17% + £56,403 @ 40%)
National Insurance - £13,250.

m. Adjusted Outgoings **results in £5,664 more towards public services.**
Annual Ground Rent @ £8,900 less Council Tax @ *£2282 = £6618*
£31,785 x 3% is £954.
£6618 minus £954 is £5,664.

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