

Estimation of Land Value Tax Revenues in London

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Executive Summary

Land Value Tax (LVT) revenues can be estimated based on the underlying land value and the use of the land. This report gives estimates of potential LVT for each London borough and the whole of London. These estimates are compared to revenue from the current tax regime: Council Tax (CT) and (residential) Stamp Duty Land Tax (SD) for domestic taxation and, for non-domestic tax, the National Non-Domestic Rates (NNDR) and (non-residential) Stamp Duty Land Tax. In each scenario, the level of LVT is adjusted to keep the total revenue across the whole of London static.

For domestic tax based on the land area of domestic buildings:

- An LVT of 1.97% gives London-wide domestic revenue of £6.5bn, similar to CT plus SD
- An LVT of 1.04% gives London-wide domestic revenue of £3.4bn, similar to CT only

For domestic tax based on the area of domestic buildings plus domestic gardens:

- An LVT of 0.62% gives London-wide domestic revenue of £6.4bn, similar to CT plus SD

For non-domestic tax:

- An LVT of 2.85% gives London-wide non-domestic revenue of £6.4bn, similar to total NNDR net collectable revenue
- An LVT of 3.41% gives London-wide non-domestic revenue of £7.6bn, similar to NNDR plus non-residential Stamp Duty

Introduction

This report describes a methodology for estimating land value tax (LVT) revenues in the London area, and the results of doing so.

Whilst there has been much written about the desirability of land value taxation, there are currently no reliable estimates as to how much an LVT would raise in practice in London. This paper describes a method for estimating LVT revenues, and shows the results of the calculations within London. Estimated revenue is compared to current revenue from property taxes: Council Tax (CT), Stamp Duty Land Tax (residential and non-residential), and National Non-Domestic Rates (NNDRs, often called business rates). Within the document, SD refers to the residential component of Stamp Duty Land Tax.

Land valuation data are from March 2015; the Generalised Land Use Database (GLUD) is from 2005; all other data are for fiscal year 2014-15 at those prices. Results are at 2015 prices.

In practice, introducing an LVT would affect the value of land, and any change would not be uniform across the capital. This should be borne in mind when considering a particular level of LVT, and its distribution across households and boroughs.

There are known limitations to the data used in this paper – *inter alia*, the use of a single land value for a borough, and the way in which that value was estimated; the methodology used to identify the difference between domestic and non-domestic land use in the GLUD; and the timeliness of estimates. These should be borne in mind when interpreting results.

SD is estimated according to the methodology described in “Stamp Duty Receipts in London” (Barnaby and Pearce, 2017), with normalisation to the total London SD revenue of 2015.

The calculations here provide the first estimates of potential LVT revenues in London boroughs – results that may be used to better inform policy development.

Land Value Tax versus Land Rental Value Tax

An LVT is based on the underlying value of a piece of land. It will reflect the “maximum-use” value of the land, being blind to the actual (current) use of the land. A land rental value tax (LRVT), on the other hand, depends on the potential rental yield of a piece of land. One way to estimate rental yield is to consider it as a proportion of the value of the land. This shows the very strong underlying link between LRVT and LVT.

If rental yield is considered constant across London boroughs, the difference between the two taxes will manifest itself in whether tax-rates and revenues are presented as a percentage of the land value, or as a percentage of the rental yield. The estimation of an LVT presented here could be used as the first step in estimating a LRVT.

There are some estimates of rental yield already available, such as the

buy-to-let rental yields updated daily on the Portico rental yield map¹. Importantly, this is a buy-to-let rental yield, rather than a land rental yield.

Methodology

The practical implementation of an LVT requires the land value to be determined. This is not easy: the value reported to the Land Registry at the time of sale is generally for a property and the land it stands on combined. The wide variation in property prices across London boroughs suggests that the value of the underlying land will vary widely (as the re-build cost of property would not be expected to show similar variation across Greater London). Therefore, in this report, we work directly from land value estimates, rather than estimates of the land value derived from a typical sale price minus a rebuild price – even though that could well be the way that LVT is implemented in practice.

The Valuation Office Agency (approximately annually) produces a report on land prices which estimates the price of a hectare of land within each London Borough. Although there are caveats to these estimates concerning accuracy and methodology, at this stage it is important to bear in mind that the objective of this work is to produce a first-pass, high-level estimate of LVT revenue, and the prices are suitable for this. The GLUD then has estimates of the number of square metres of land within each local authority, classified by a given set of uses (including domestic building, domestic garden, non-domestic, road, rail, water, etc.) The latest version is from 2005 and, whilst described as the current definitive version, will obviously be out of date in some respects. Further limitations include that it describes the actual land use in 2005 rather than the maximum possible land use at that time, and that domestic/non-domestic use is derived according to a set of broad criteria. However, again, it provides a useful starting point.

The value of domestic land within a borough is then:

Value of domestic land in borough =
Number of hectares of domestic land in borough
× Value of each hectare of land.

This hides a problematic issue, namely whether domestic land is only the area of domestic buildings, or the area of both buildings and gardens. Whilst current planning regulations encourage a given density of building and garden (and therefore influence the value of the land for development), these densities will alter over time. To examine the difference made by including the area of garden in the domestic estimates, one estimate is given which includes both the area of domestic buildings and the area of domestic land, and a second which includes the area of domestic buildings only. The latter is used for all calculations unless otherwise stated. It is therefore possible to compare the different distribution of tax revenues according to whether or not the area of domestic garden is included in the estimation process.

1. <https://goo.gl/usvZ9x> (last accessed 2nd March 2017)

The revenue raised by domestic dwellings in a borough is:

Domestic revenue in borough = Value of domestic land in borough × Tax rate.

In each example, LVT is calculated at a level that raises equivalent revenue to a current tax. The revenue of LVT is then compared, borough-by-borough, to the revenue from the relevant current tax. This is reasonable as the total revenue of the two tax schemes is set to be approximately equal. The comparison gives a picture of how tax liability in each borough might compare under the two regimes.

An LVT for non-domestic property can be calculated in a similar way:

Value of non-domestic land in borough =

Number of hectares of non-domestic land × Value of each hectare of land;

Non-domestic revenue in borough =

Value of non-domestic land in borough × Tax rate.

Results

In each example, LVT is calculated at a level that raises equivalent revenue to a current tax. The target revenue for the LVT is chosen, and then the LVT rate to achieve that total revenue is determined. The revenue of LVT is then compared, borough-by-borough, to the revenue from the relevant current tax.

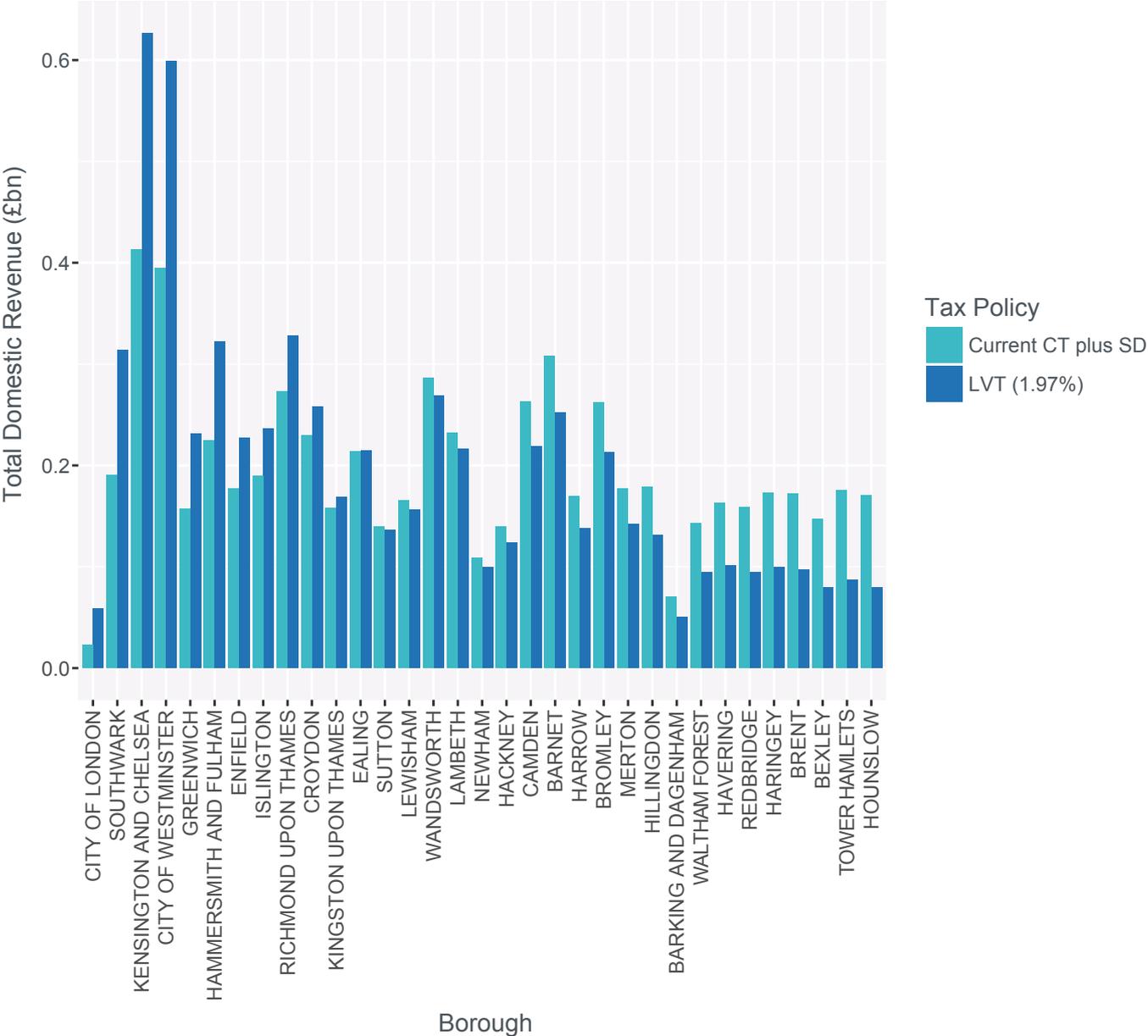
Results for total London revenues are gathered together later; at this time, the total of both domestic and non-domestic revenue for each LVT is given.

LVT of 1.97% (equivalent domestic revenue to CT plus SD)

LVT is calculated at 1.97%, using the area of domestic buildings. This gives approximately the same total revenue as CT and SD combined (£6.4bn).

In Figure 1 the bars show estimates of CT plus SD revenue, compared with revenue from LVT at 1.97%. Boroughs on the x-axis are ordered from the largest percentage increase in revenue to the smallest. The revenue in Southwark increases by about 50%, whilst the revenue in Tower Hamlets will approximately halve. The balance is found at Ealing: boroughs to the left of Ealing see an increase in domestic revenue with LVT, whilst boroughs to the right of Ealing see a decrease.

Figure 1
 Domestic Revenue: Current Combined CT and SD versus LVT at 1.97%
 (Ordered by ratio of current to new, at 2015 prices)



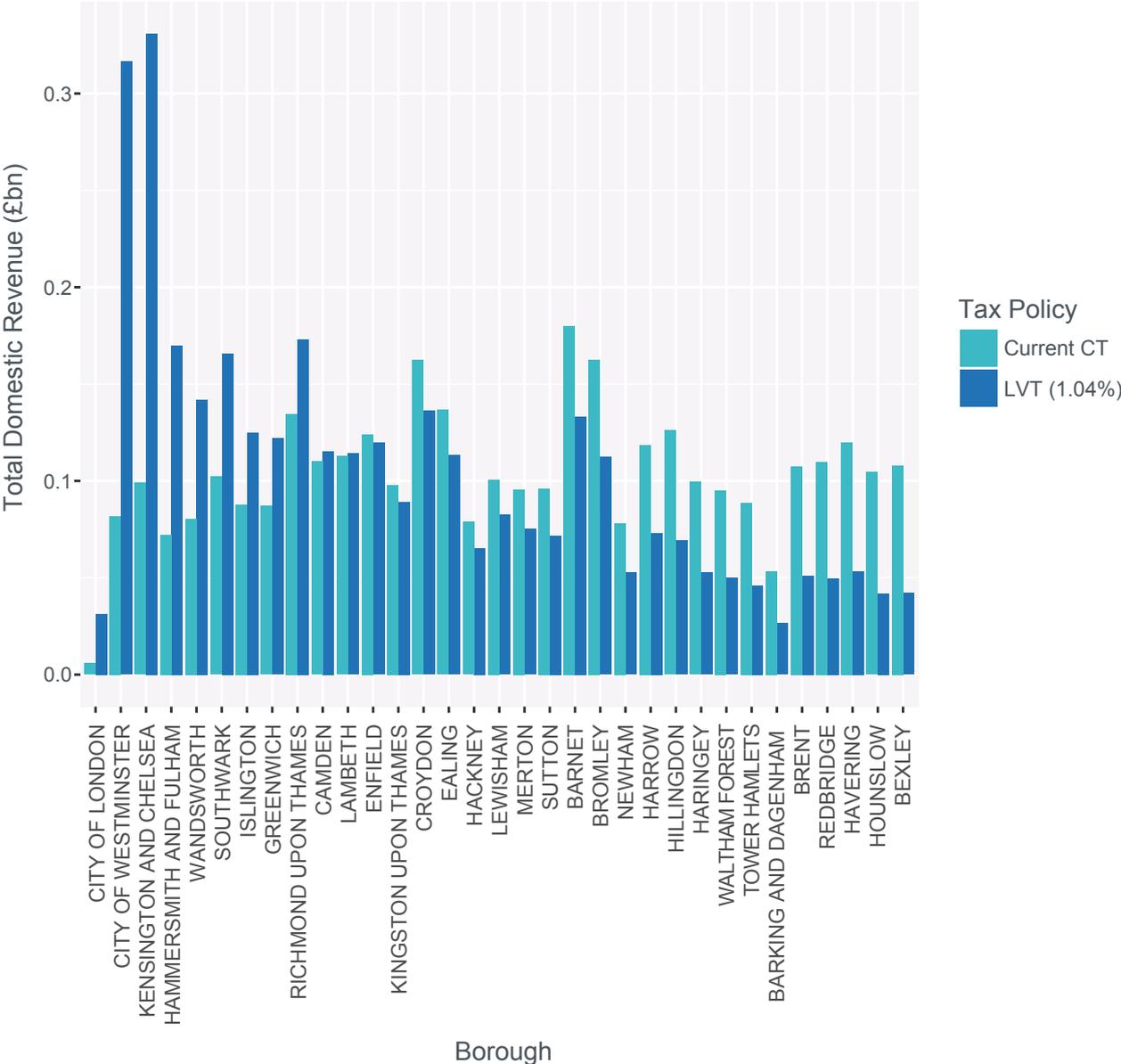
LVT of 1.04% (equivalent domestic revenue to CT)

LVT is calculated at 1.04% using the area of domestic buildings. This gives approximately the same total revenue as CT (£3.4bn).

Figure 2 shows the distribution of LVT, compared to the distribution of CT across boroughs. Again, boroughs are ordered by the percentage difference in revenue.

It is interesting to note that there are a small number of boroughs that see a relatively large increase. In the City of London, City of Westminster, and Kensington and Chelsea, the LVT revenue is over three times the current CT revenue.

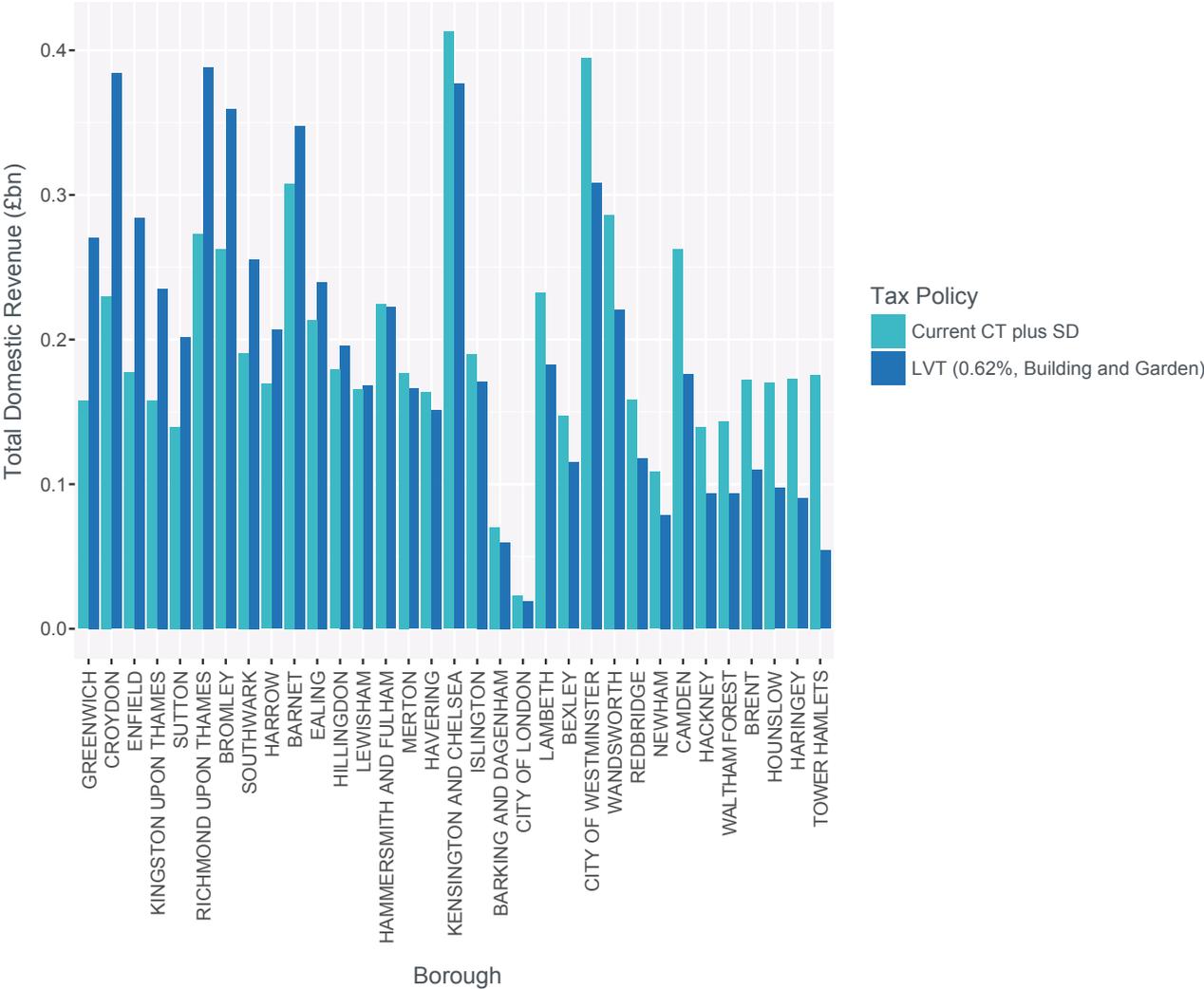
Figure 2
Domestic Revenue: Current CT versus LVT at 1.04%
 (Ordered by ratio of current to new, at 2015 prices)



LVT of 2.85% (equivalent non-domestic revenue to NNDR)

The total NNDR across London is £6.4bn. To raise this amount in non-domestic revenue LVT would need to be set at 2.85% for non-domestic property. Figure 4 compares non-domestic revenue from LVT of 2.85% and current NNDR net receivable. In some boroughs revenue will steeply increase (such as Greenwich and Richmond-upon-Thames). Other boroughs will see a reduction: this would include the City of Westminster and the City of London.

Figure 3
 Domestic Revenue: Current Combined CT and SD versus LVT at 0.62%
 (Ordered by ratio of current to new, at 2015 prices)



LVT of 3.41% (equivalent non-domestic revenue to NNDR plus non-residential Stamp Duty)

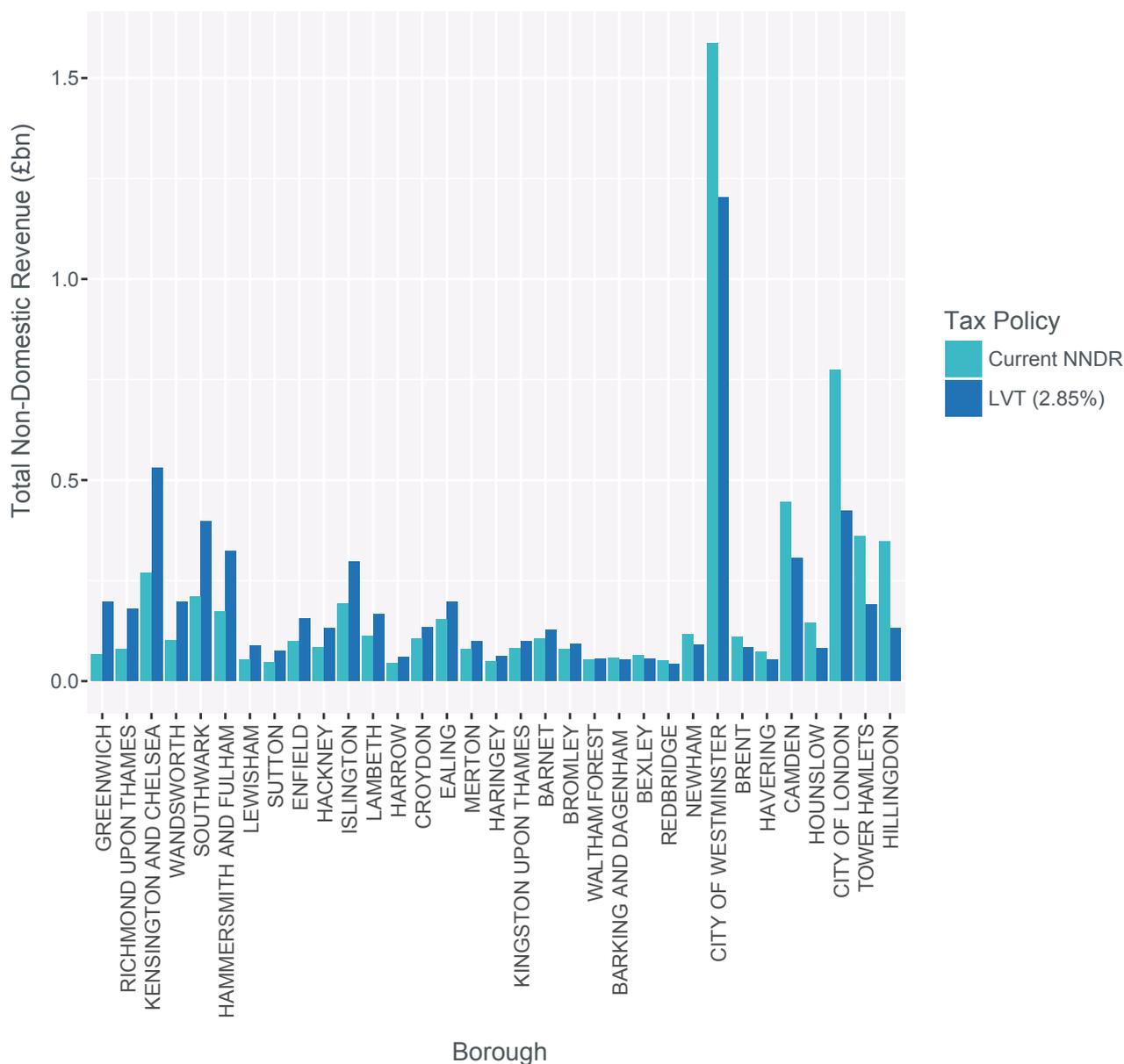
LVT of 3.41% will raise equivalent non-domestic revenue to the current yield of NNDR plus non-residential Stamp Duty: about £7.7bn.

There are no estimates that suggest how non-residential Stamp Duty would be spread across boroughs, so it is not possible to produce a comparison graph. The last section shows how LVT revenues with a rate of 2.85% compare to NNDR. These comprise about 84% of the total respective revenues of each of NNDR and non-domestic LVT at 3.41%.

Figure 4

Non-Domestic Revenue: Current NNDR versus LVT at 2.85%

(Ordered by ratio of current to new, at 2015 prices)



Total London Revenue

Total revenues are summarised in Table 1.

Table 1: Total London Revenue (£bn)

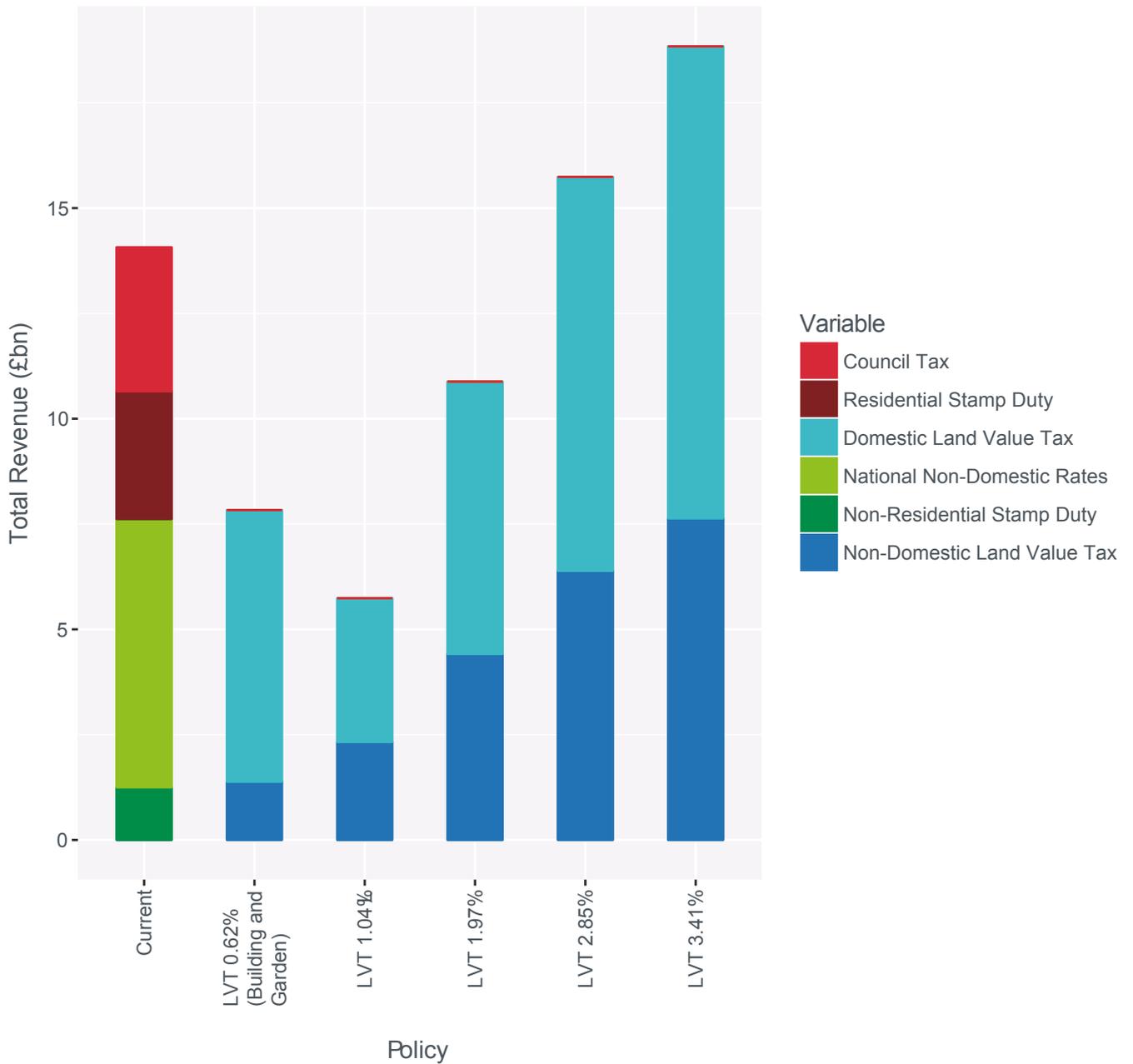
Policy	CT	SD	Domestic LVT	NNDRs	Non-Residential SD	Non-Domestic LVT
Current	3.4	3.0	-	6.4	1.3	-
LVT 0.62% (domestic area of building and garden)	-	-	6.4	-	-	1.4
LVT 1.97%	-	-	6.5	-	-	4.4
LVT 1.04%	-	-	3.4	-	-	2.3
LVT 2.85%	-	-	9.3	-	-	6.4
LVT 3.41%	-	-	11.2	-	-	7.6

LVT revenues are shown in Figure 5 for the whole of London. The bars show:

1. Current tax receipts of CT, Stamp Duty (both residential and non-residential), and NNDR
2. LVT of 0.62%, with domestic LVT based on both domestic buildings and domestic gardens (giving a similar domestic revenue to CT plus SD)
3. LVT of 1.04% (giving similar domestic revenue to CT)
4. LVT of 1.97% (giving similar domestic revenue to CT plus SD)
5. LVT of 2.85% (which gives similar non-domestic revenue to NNDR)
6. LVT of 3.41% (which gives similar non-domestic revenue to NNDR plus non-residential stamp duty receipts)

Bars 3-6 use only domestic buildings to calculate domestic LVT.

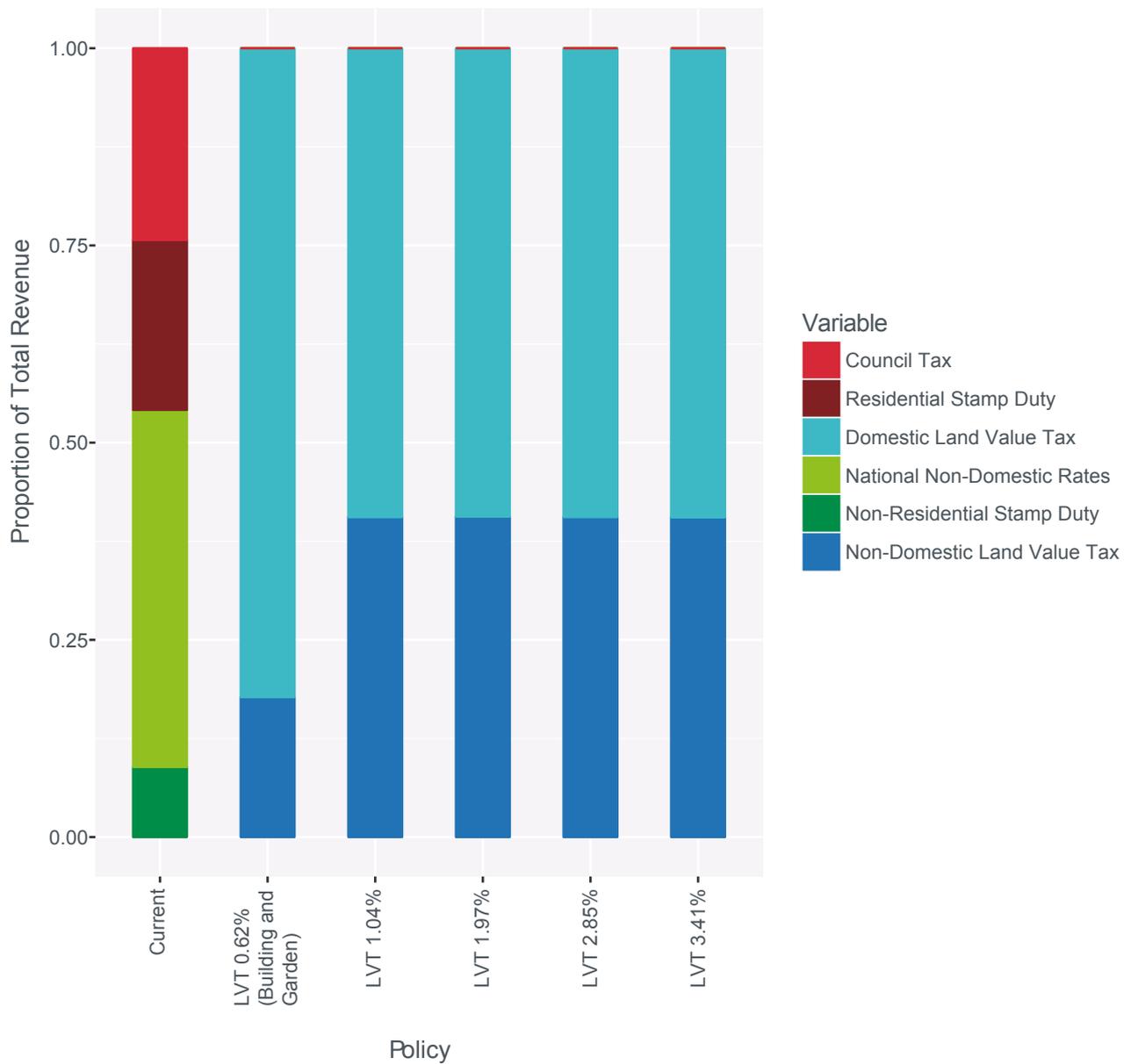
Figure 5
Estimates of Total London Revenues



These values are represented as a proportion of total revenue in Figure 6. The four LVT bars on the right, which represent domestic tax based solely on domestic buildings, look similar, as the proportion of revenue raised in residential and non-residential tax will be constant; the total LVT raised will only vary based on the actual percentage of the LVT. Figure 6 highlights the different distributions of overall tax burden, comparing: the current tax scheme; LVT with domestic tax based on domestic buildings; and LVT with domestic tax based on domestic gardens plus domestic buildings.

Figure 6

Comparing Estimates of Total London Revenues as a Proportion of Total



Conclusion

This report has developed a methodology to provide initial estimates of potential LVT revenue in London. This is the first time quantitative estimates of LVT revenue have been compared to CT, SD and NNDR revenues across the boroughs, providing hard evidence to inform policy development.

There are obvious limitations to the results; however, the model provides a starting point for understanding LVT in London. It could be adapted to reflect aspects of LVT implementation, including modelling an LRVT.

This methodology can also be implemented for other parts of the UK, with similar benefits.

Contact

This publication is one of two modelling the impacts of tax reform in London. It is part of the Centre for London and Institute for Policy Research (IPR) project *Open City: London After Brexit*. To find out more, contact IMI Commercial Research Assistant Dr Catherine Barnaby by:

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