

GLTN Fact sheet, Themes and Issues

5. Land Value Taxation

Land value taxation (LVT) is the practice of creating local and/or state revenue by charging each titleholder to land a portion (%) of the value of the site but not for buildings. LVT can be used to produce revenue for public purposes and for fostering more efficient use of land, including natural resources. The poor would benefit from LVT via i.e. cross subsidies regarding infrastructure etc.

Without land tax there is vast amount of speculation in land which is pushing the price of land sky high and making it unaffordable for the poor in cities. This is especially important for regions where political patronage is linked to land.

5a. Land tax for financial and land management

Looking first at the instrumental justifications, paying this fee encourages a landowner to develop vacant and under-utilized land to the full extent that its value warrants, or to make way for others who will. Sites are consequently used more efficiently, dilapidated inner-city areas are returned to good use, which reduces urban sprawl. LVT deters speculative land holding and enables a society to provide sustainable and wider access to the use of land. This allows women and men, poor and affluent, uneducated or well educated, all to gain access to land in more affordable manner. It enables secure land tenure by owners willing to pay for the land advantages they find important. This approach to revenue production stimulates new business and new employment, reducing the need for government assistance.

Economically LVT makes sense because, it does not distort market mechanisms or otherwise burden the economy the way most other taxes do. It is a cheap and efficient levy to administer because much less effort is required to track land ownership and value than to track income or sales transactions. Tax evasion on land is much more difficult than on financial wealth because land cannot be hidden, removed to a tax haven, or concealed in an electronic data system. Even in the poorest of communities the tools are readily available to implement this policy.

There are also compelling moral reasons for LVT. Land (unlike goods and services) has no cost of production. If an ample supply of land of equal desirability were available everywhere, there would be nothing to pay for its use. In reality land acquires a scarcity value owing to the competing needs of community members for living, working and leisure space. Thus land value owes nothing to individual effort and everything to the community at large. It belongs justly and uniquely to the community. Conversely, the reward for individual effort rightfully belongs to the one who earns it. Because of differences in location, fertility or natural resources, some places are more

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advantageous than others. Only demand for access to these advantages gives land its value.

Land values are created mainly by factors that are not the result of the landowner's own effort; for example, the creation of new infrastructure, new public transportation, or re-zoning. All can radically change the value of a piece of land. LVT provides a method of recouping windfall changes to land value that occur as a result of investment by the community, placing less of the burden on taxpayers who don't directly benefit. This allows reductions in existing taxes on labor (wages) and enterprise (sales). The LVT is progressive because the land tax cannot be passed on to a tenant; competitive markets, and not landlord overheads set rental prices.

The natural world is rightfully the common property of all persons, and therefore the LVT is not really a tax, but simply the collection of rent (a user fee) on behalf of the community. For eight thousand years worldwide, LVT has been the primary basis for producing public revenue and is easy for people to understand. LVT is the appropriate instrument for the urgent fight against global inequity and poverty.

Questions for tool developers

1. Where has LVT been implemented?
2. How difficult is it to assess land values?
3. How would you implement LVT in a small community with limited resources and what are the barriers?
4. Is it fair to tax existing landowners who have not been taxed in the past?
5. Is it fair to tax the poor?
6. What if there is no valuation profession in place in the country?