

Call for evidence: Written evidence for the APPG on Land Value Capture

To: APPG on Land Value Capture

By: The Intergenerational Foundation

Date: 31 July 2018

The Intergenerational Foundation (www.if.org.uk) is an independent think tank researching fairness between generations. IF believes policy should be fair to all – the old, the young and those to come.

Introduction

IF is delighted to provide written evidence to the APPG on Land Value Capture, and contribute from our perspective of promoting intergenerational fairness. As such, this response focuses specifically on one of the objectives of this APPG: to examine “the potential for addressing the inter-generational equity of shifting tax from income to property and land assets”.

IF believes these intergenerational arguments to be particularly important, as they have been notably absent from recent discussions about Land Value Capture (LVC), for example in the recent Housing, Communities and Local Government LVC inquiry.¹

Shifting tax from income to assets

The current tax system in the UK, which taxes incomes far more heavily than assets, puts the younger generation at a significant disadvantage compared to the older working generation. Below are some existing flaws in the system which entrench this intergenerational unfairness:

- Young graduate workers face a 41% marginal tax rate on their incomes, due to a combination of Income Tax, National Insurance Contributions (NICs) and student loan repayments;²

¹ Housing, Communities and Local Government Committee. (2018) [Land value capture inquiry](#).

² Intergenerational Foundation (2016) [Why the current student deal is unfair](#).

- Workers over state pension age (of which there are 1.2million in the UK) are not required to pay NICs, thus increasing the burden on younger workers;³
- The only asset taxes which are levied on wealth that derives from land value currently are council tax, stamp duty and inheritance tax, all of which have significant flaws.

As is discussed in more detail below, Council Tax is regressive because people living in more valuable properties pay proportionately less of the property's value in tax, while the fact that the Council Tax bands haven't been updated since 1993 means that they fail to accurately reflect the enormous gains in property values which have occurred in many parts of the country during the 25 years since then. Stamp Duty, despite recent reforms which have made the system less distortive, is still a tax which is effectively borne by property buyers rather than sellers, meaning it acts as a disincentive towards moving property. Finally, Inheritance Tax has become so politically unpopular that the system has continually been reformed under successive governments to ensure that fewer and fewer voters actually have to pay it, despite it being an effective way of taxing wealthier peoples' assets when they no longer need them themselves; in 2013/14 only 4% of estates were large enough to incur an inheritance tax liability, and 70% of Inheritance Tax revenues are paid by the relatively small number of estates worth over £1 million.⁴

A consequence of under-taxing assets is that more pressure is put on working people's incomes to raise the same level of taxation. This exacerbates inequalities both within and between different generations because the distribution of asset wealth is extremely unequal: figures from the Office for National Statistics (ONS) highlight that whilst the top 10% of households by income earn **6.8 times** more than the bottom 10% of households, the wealthiest 10% of households by assets have **290 times** more than the bottom decile.⁵ The relatively light taxation of land values is especially beneficial to older households because they now own most of Britain's property wealth, compared to previous decades when it was more evenly distributed by age: home ownership has fallen from 60% of 25-34 year olds in 2001-2002, to just 35% in 2013-2014,⁶ whereas it rises to almost 80% for 45-64 year olds.⁷ Given that the uplift in land and property prices which has occurred since the early 1990s is effectively a windfall gain for people who got on the property ladder at the right time, there doesn't seem to be a convincing argument for under-taxing this wealth on grounds of fairness.

The intergenerational benefits of LVC

Capturing the uplift in land value has multiple benefits for intergenerational fairness. Firstly, it would encourage a more efficient use of existing housing stock. IF has

³ Intergenerational Foundation (2018) [An Extraordinary Anomaly: Why workers over state pension age should pay National Insurance.](#)

⁴ Miller and Rowntree (2017) [Tax revenues: where does the money come from and what are the next government's challenges?](#) London: Institute for Fiscal Studies

⁵ ONS (2018) [Wealth in Great Britain Wave 5: 2014 to 2016](#)

⁶ ONS (2016) [UK Perspectives 2016: Housing and home ownership in the UK](#)

⁷ [ibid](#)

previously called for the introduction of a land value tax (LVT),⁸ as it would provide an incentive for under-occupiers⁹ to downsize. Under-occupation of housing is a significant problem in England's housing market - over half of owner occupied households are under-occupied, which is an increase in under-occupation from 39% in 1996-1997, to 51% 2016-2017.¹⁰

LVC could be a way of fairly taxing the asset-rich, to level the playing field between the young and old. Of course, we understand that older generations have had more working years to build up their assets, but the uplift in land value to date has been enjoyed by the old rather than the young. Something must be done to redress this imbalance. As previously outlines, levels of home ownership are far higher amongst older generations, with younger generations struggling to get on the housing ladder and the average age on first time buyers on the rise.¹¹

Reforming council tax

A reform of the current council tax structure may be a sensible initial step, before introducing an LVT.

There are many anomalies within the current council tax system. Firstly, council tax concessions for single occupiers does little to alleviate the aforementioned under-occupation issue. IF has previously estimated there are 25 million empty bedrooms in the UK,¹² and a council tax that effectively encourages the existence of empty bedrooms does seem truly incongruous.

Secondly, council tax is doubly regressive. As the Barker Commission outlines,¹³ it taxes those with greater incomes proportionally **less** than those with smaller incomes, and taxes larger properties proportionally much less than small properties. The Resolution Foundation have highlighted that someone living in a property worth £100,000 pays around five times more council tax relative to property value as someone living in a property worth £1million. A regional bias also exists, in that council tax is proportionally higher in areas with lower property values.¹⁴ A reform of council tax, that links bands and charges more closely to the value of land and property could be a realistic way of beginning to balance out asset-related intergenerational equities in the UK.

⁸ Intergenerational Foundation. (2011) [Hoarding of Housing](#)

⁹ *Under-occupation is defined by the English Housing Survey as households which have two or more bedrooms more than the notional number needed for the number of occupants.*

¹⁰ Ministry of Housing, Communities and Local Government. (2018) [English Housing Survey 2016-2017](#)

¹¹ Which (2017) [First-time buyers over 40 years: Millennials have to work twice as hard to buy a home](#)

¹² Intergenerational Foundation. (2011) [Hoarding of Housing](#)

¹³ Barker, K. (2004) [Review of Housing Supply](#)

¹⁴ [Ibid](#)

If you would like to learn more about the work of the Intergenerational Foundation please contact:

Liz Emerson

Co-Founder

Email: liz@if.org.uk

Mobile: 07971 228823