

Land value taxation is not a panacea

<https://www.taxresearch.org.uk/Blog/2024/08/27/land-value-taxation-is-not-a-panacea/>

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In this morning's video, I put forward an idea that will not, I know, please everyone. I suggest that land value taxation (LVT) is not a panacea or solution to the problems we face in the tax system.

Land value taxation is a 19th-century idea that has very rarely been used. Its proponents say it is the great unavoidable tax that could potentially replace all other taxes. The problem is it is based on assumptions that might be fine in theory but which would be incomprehensible in practice – and that's no way to impose a tax charge.

<https://www.youtube.com/watch?v=BzAlpya15H0?si=pcofQjYc6gbaTr2i>

The audio version is here:

https://www.podbean.com/player-v2/?i=mau2t-16b2a11-pb&from=pb6admin&share=1&download=1&rtl=0&font=Arial&skin=c73a3a&font-color=&logo_link=episode_page&btn-skin=ff6d00

The transcript is:

Land value tax is something that has been promoted for a long time and which I've never really got to grips with. Let's be clear why.

The proponents of land value tax like to claim that it is the universal answer to all

taxation problems because land is in finite supply, we can always identify who owns it, it's always here in the UK, therefore we can tax it, no one can avoid the charge, and what is more, this is the fairest way in which to levy all taxation, because all of our wealth, apparently, is derived from the land.

First of all, let me say, I don't think all of our wealth is derived from the land. I think a lot of our wealth is derived from our labour. There is no doubt that we use inputs from the land in that process, but to claim that somehow or other the only one of the factors of production that needs to be taxed is land is, to me, very odd.

I also think it very odd that we claim that we do not need to tax labour because if we were to do so, then I believe that the capacity of a government to raise revenue would be severely diminished, and I do wonder whether those who promote land value tax also have that agenda in mind. I don't believe it is possible to raise that much revenue from land.

I also, in practice, have major problems with the ways in which land value taxation works.

Let's be clear, land value taxation is not like a council tax. Council taxes, as all those who pay them in the various countries of the UK, and each has a different system, will know are quite conceptually different.

For example, in England, where most people will be paying council tax inside the UK, land values haven't been re-rated since 1992, which is pretty absurd because, for example, the house in which I am recording this video was built in 2003, but it does nonetheless have a 1992 valuation for council taxation purposes, which doesn't really make sense.

But land value taxation makes this problem with valuation even more difficult to understand. Land value taxation is not charged on the value of a property, which most of us can pretty much get our head around because there is a fairly identifiable price for most properties in the UK without too much difficulty now being required to establish it. I can go on to Rightmove or Zoopla and get a fair idea of what my house is worth. But that is not what land value taxation charges to tax. Land value taxation charges the rental value of the land underneath the property. And that is something quite different.

The purpose of this is to create a charge to tax that is on the value of the land, whether or not there is a building on it. In other words, what you're trying to charge is the value of the land itself.

But, none of us really understand the difference between the value of our property and the value of the land on which it stands. We are not used to undertaking that valuation. And there would be significant confusion if all the properties of the UK were revalued in

this way because people would say, what does that mean? There would be enormous numbers of appeals against values as a consequence and a feeling of disquiet as to what that value might be.

And the charge to tax on this made up, guessed, assumed, estimated, use whichever words you will, value, will be very hard.

I have seen a recent proposal that has suggested it should be used to make good the shortfall that Rachel Reeves supposedly has in her budget of £22 billion a year. Increasing council taxes by £22 billion pounds a year would put them up by maybe 50 per cent. And if we were to try to replace other taxes with land value taxes, as some of the proponents of that charge suggest, then the price would skyrocket.

Now, there's also a lot of naive comment also made about land value taxation; for example, that it would be charged on the owner of the land and not on the tenants because that supposedly is fairer. I call that claim completely naive. That's like saying the interest paid by an owner on the loan that they have taken out to buy a property which they have then let does not have any impact upon the rent that they charge. I promise you, it does, and that's precisely why rents have gone up so significantly over the last few years, because interest rates have risen. So, the naive assumption that somehow or other a landlord will pay a tax and not pass it on inside the rent that they pass to a tenant is absurd. Let's ignore that, it's a stupid claim.

But let's just go back to the substance of this. Can land value taxation really capture a fair charge that should be levied, or is there a better way of capturing that charge in some other way? Because what we're trying to capture is the value of land. Could we deal with that better by simply increasing the tax rate on rents?

Why not? Because we could do that. For example, I have proposed that all rents should be subject to what is called an investment income surcharge of 15%, which would be, broadly speaking, the equivalent of applying a national insurance charge to them. And if that rent was received in a company, we could have a higher corporation tax charge instead. This would be a much easier way of capturing additional revenue from land.

Could we also increase the rate of capital gains tax paid on the sale of land? Yes, of course we could.

And could we have what is called a development land tax, which Labour tried at one time and which was abandoned by Thatcher long ago? A development land tax was a charge on the increase in the value of land when it moved from having no planning permission on it to having planning permission on it. In other words, part of that enormous increase in the value of land which arises when planning permission is granted on it, would be taxed at that time, I think perfectly fairly.

So, are there better ways than trying to create a whole new tax with a basis of

valuation which would be entirely unknown, unproven, and incomprehensible to most people as the basis for a charge? Yes, I think there is.

I'm a pragmatist when it comes to tax. I do believe people should have a real chance of understanding the taxes that they pay.

I don't think most people would understand a land value tax.

It's one of those taxes that looks wonderful on a theoretician's blackboard, or inside a textbook, but which, when it comes to the real world, looks a bit rubbish, to be totally honest.

I think there's good reason why we haven't tried it. I don't think we will be. I think there are better ways of extracting value from rents when it comes to taxation, and I've suggested some of them, and more could be explored, but land value tax is not, I think, going to be on anyone's agenda in the near future.