Funding the Future

Glossary entry: land value taxation

Published: January 13, 2026, 9:02 am

I was asked in a comment on this blog last night why I did not emphasise land value taxation as a wealth tax. In fairness, the question could have been asked: why do I not place much emphasis on this tax at all, because I do not.

The reply I have has been adapted as a new glossary entry, as follows:

How Land Value Tax (LVT) is meant to work

A Land Value Tax charges a levy on the unimproved value of land, excluding buildings and other improvements. The theoretical case is attractive. Land is fixed in supply, cannot be hidden or relocated, and much of its value is created by collective action, such as the granting of planning permission, development of infrastructure, creation of transport links, the building of schools, and the strength of the surrounding community. Taxing land value should therefore capture unearned gains, discourage speculation and hoarding, and do so without reducing productive investment, because land cannot be withdrawn from use.

In theory, the tax should fall on landowners rather than occupiers, since the supply of land is perfectly inelastic. That is why LVT is often described as an efficient and progressive wealth tax.

Why this breaks down in practice

1. ***Valuation is a fundamental problem***

Separating land value from buildings is technically possible, but it is not simple, transparent, or intuitive. Valuations would be disputed, frequently revised, and hard for taxpayers to understand or verify. That matters politically. A tax people do not understand, or trust, will not sustain consent, however elegant the theory. Administrative costs, appeals and uncertainty would be significant.

2. ***Incidence is not as theory predicts***

In real-world housing markets, and in particular, in the UK's highly supply-constrained one, landlords often pass costs on through rents. Without rent controls, strong tenant protections and major planning reform, LVT risks falling on occupiers rather than owners. At that point, it stops functioning as a wealth tax and becomes another charge on living somewhere, disproportionately affecting renters and lower-income households.

3. It is not, by itself, a reliable wealth tax

Wealth is multidimensional: financial assets, business ownership, intellectual property, offshore holdings and inheritance. LVT captures only land-based wealth. In economies where wealth accumulation increasingly occurs through financialisation rather than land alone, LVT misses large concentrations of power and income.

4. Local government funding risks are real

If LVT replaces council tax and business rates, revenues become sensitive to valuation cycles and political pressure. Sharp land price adjustments could destabilise council finances unless the central government guarantees funding. That reintroduces dependence on grants and undermines claims that LVT strengthens local fiscal autonomy.

The realistic conclusion

LVT might have uses, but it is very far from a silver bullet. It can help deter land hoarding and speculation, especially on undeveloped or vacant land, but on its own, it is a weak and potentially regressive substitute for serious wealth taxation and alternative or local authority land-based taxes.

Without complementary policies, including rent regulation, planning reform, strong tenant protection, and guaranteed central funding, LVT risks shifting the tax charge onto tenants and leaving councils exposed. That is why it should be treated as a supporting instrument at best with regard to both wealth and local taxation.
