

# Impact of Land Value Tax on the Equity of Planning Outcomes

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**Abstract:** The question of land ownership is fundamental to any modern society and has been blamed as the root of numerous social inequalities. This paper explores one potential solution to the land question, Land Value Tax (LVT), which was first popularised in the 1880s by Henry George. Despite its long history, LVT has not been widely implemented, but recently proposals to replace existing property taxes with this form of taxation have re-emerged on the political scene. While the Welsh Government has recently explored the idea of introducing an LVT, there are limited studies on this form of taxation in the context of a discretionary planning system, such as the Welsh planning system. This paper conducts exploratory qualitative research using Wales as a case study. Data was collected via semi-structured interviews with experts across various related fields, primarily within taxation and planning, to establish the potential effects of LVT in practice, with a particular focus on how it might affect the equity of planning outcomes. Overall, the research showed that despite the strong theoretical potential, fundamental practical issues would diminish the ability of LVT to effectively influence planning. LVT is argued to be largely incompatible with a discretionary planning system (e.g., the Welsh planning system), and therefore, the research concluded that many of the potential benefits of LVT could be better achieved through reforms to existing taxes and planning processes, particularly land value capture mechanisms.

**Keywords:** land value tax; equity; planning outcomes; taxation; land value capture; Wales

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## 1. Introduction

The question of land ownership touches on deep emotions and often performs a critical role in the individual's sense of participation in society. The way we use land is a fundamental question for any modern society, as the system of land ownership exerts a profound effect on physical urban land patterns [1,2]. The continued urbanisation of the global population poses both a threat and a solution to the challenges of climate change, as the problems of urban sprawl, infrastructure provision, and housing crises converge to make the efficient use of land a primary concern for governments [3,4]. Ownership of land is central to this, being strongly correlated to wealth. In the UK, the wealthiest 1% owns almost 70% of land [5]. The UK is also, along with many other countries, facing a housing affordability crisis as average prices have risen from £50,000 in 1990 to £250,000 in 2020 [6]. Monbiot, *et al.* [7] argue spiralling land values are the root of this issue, blaming them for rising inequality, housing unaffordability, and even the collapse of ecosystems. The UK also has a chronic housing shortage, which is evident most acutely in economically successful cities. Breach [8] argues that this shortage is the fault of a planning system which disconnects the local supply of housing from local demand.

One potential solution to these converging crises is Land Value Tax (LVT). First popularised by Henry George [9] in his 1879 book 'Progress and Poverty' as a panacea, believing that fully taxing the unearned increment of land appreciation could cure poverty. Georgist ideology centred around equity, as he lived in an era when land ownership was staggeringly unequal and speculation was rife [10,11]. LVT hinges on the idea that rising land values are created by the community and are justified in being taxed for the public

good [12,13]. LVT enjoys widespread consensus among economists, including Adam Smith, John Stuart Mill, and Milton Friedman. Despite this, its implementation has been limited [10,14]. Where it has been implemented, in countries, such as Australia and Namibia, LVT successfully divided vast land holdings into smaller, more intensively managed plots [15–17]. However, following this period LVTs typically operate at much-reduced rates, raising less significant revenue in countries, such as Jamaica, Kenya, and Denmark [1,17].

LVT has considerable potential in the UK, given its highly unequal land distribution, where vast swathes of land are still held by aristocrats and the Crown [5]. There have been numerous attempts to introduce LVTs in the UK, first demanded during the socialist revival of the 1880s; LVT was then included in the ‘People’s Budget’ in 1909 and in the National Government’s programme in 1931, but implementation has continually faltered [18]. Furthermore, property taxes in the UK are in desperate need of reform, with Council Tax (levied on residential property) and Non-Domestic Rates (levied on commercial property) being ‘particularly unpopular’ [19]. Council Tax is considered ‘ripe for revaluation and reform,’ given it is highly regressive and increasingly arbitrary [20–22]. Council Tax, to a greater extent than typical property taxes, does not reflect taxpayers’ ability to pay, nor skyrocketing property prices [23,24]. Therefore, the UK has strong potential for introducing more equitable property taxes.

Recently, LVT has re-emerged onto the political agenda as issues related to rising land values have intensified, with the Labour Party publishing a report in 2019 that proposed replacing Council Tax with a form of LVT [7]. There is also renewed interest in LVT in Wales, with a 2020 report commissioned by the Welsh Government investigating a similar policy proposal [25]. This report found that LVT had considerable potential but argued that more research was needed to understand how an LVT might work within Wales, particularly regarding how LVT would interact with the planning system and impact land use decisions. The core debate within this is how LVT operates alongside the discretionary planning system, as the granting of planning permission creates huge uplifts in values, complicating the functioning of an LVT [26]. Wales, similar to other UK nations, uses a discretionary approach to planning, which is characterised by wide discretion and flexibility in decision-making, where planning permissions are granted on a case-by-case basis. Unlike a regulatory approach to planning, which is used in most European countries with zoning as the main policy instrument, discretionary planning systems do not employ zoning [27]. As a result, the Welsh planning system includes a degree of discretion in decision-making. For example, local authorities have the ability to make decisions on planning applications based on their own interpretation of policies and guidelines and may have some flexibility in how they apply these standards in practice. Milan, Kapfer and Creutzig [3] argue that the literature on LVT across Europe lacks in conclusive outcomes, particularly for fairness and land consumption concerns. Therefore, this paper explicitly focuses on this knowledge gap to examine how LVT impacts equity (broadly defined as the quality of being fair or impartial) and land use planning to investigate how it could achieve more equitable planning outcomes. As Needham [28] argues, LVT can either be used as a mechanism to raise funds or as an instrument of land use planning. Primarily, LVT, in theory, encourages more efficient land use by increasing the holding costs of land [3,19,29]. However, Bird and Slack [30] warn against the use of a fiscal instrument to achieve non-fiscal goals.

The primary objective of this paper is to establish how LVT will affect planning, with a particular focus on equity. To address this, it is necessary to break down the question into three sections: first, establishing how existing property taxes influence planning. Following this, the paper will then analyse what effect a new LVT might have on this planning landscape and whether it would improve the equity of planning outcomes. Finally, after building this picture of the current and potential future effects of taxation on planning outcomes, the study sought to establish whether the policy should be taken forward and whether it should be either accompanied or offset by other measures to improve

equity. Therefore, the following research questions were established: RQ1: How does the current property tax regime affect the equity of planning outcomes? RQ2: What are the potential impacts of implementing an LVT on planning outcomes? Additionally, RQ3: To what extent would LVT produce more equitable planning outcomes over the current tax regime? Planning outcomes in this paper are broadly defined as direct or indirect impacts of planning decisions and interventions on communities and their built and natural environments. The paper is structured as follows. The next section examines existing literature on LVT, reviewing its history, how it works, and its strong theoretical benefits for land use planning. The paper then goes on to present the methodology undertaken in this research. The findings will be presented under each of the three research questions. The paper concludes with a summary of the key findings and conclusions.

## 2. Overview of Land Value Tax

The value of land is derived from two factors, location and permitted use [25]. The economic rent a parcel of land can fetch is determined by its scarcity and location. Land value is, therefore, 'the price of monopoly' as the scarcer the land, the higher its value [16]. Land is a unique resource in that it bears zero cost in production and is in almost fixed supply [1]. Given these unique characteristics, taxing land wealth has a long history [31]. It was first popularised by Henry George, who proposed a single tax on land value as a panacea for all social problems [12]. Fundamental to George was the belief that land value represents 'unearned' income created by the community through improving adjacent land. This concept has considerable consensus amongst economists [10,14,18].

Land Value Tax refers to an ad valorem levy on the unimproved value of land [25]. In other words, LVT concerns a levy on the value of land without regard to buildings, personal property, and other improvements. McCluskey and Franzsen [1] outlined the key principles of good taxation, including equitable distribution, fair and non-arbitrary, low administration costs, levied at the appropriate time, and limited economic distortions. In theory, a well-designed LVT can conform to these principles. First, redistributing unearned wealth means equity is central to LVT in both taxation and land use terms [32]. LVT is particularly efficient as land supply is fixed and cannot be hidden or withheld, meaning LVT produces little economic distortion [18]. The inelasticity of supply also means LVT does not increase the price of land and therefore does not cause deadweight loss [11]. Another way LVT creates more equitable outcomes is by taxing owners rather than occupiers of land. For tenants, rising land values simply translate to higher rents, as added values are captured by ownership [3]. Theoretically, LVT not only captures these gains but prevents them from being undermined by higher rents, as landlords' inability to restrict supply encourages capitalisation of the tax. This effect has been observed in practice, with Høj, *et al.* [33] proving that tax increases were fully capitalised by landowners following a change to Danish LVT.

Despite the strong economic consensus in favour of LVT, this type of land taxation has not been widely utilised. Brooks [19] argues that taxes that are best economically are often worst politically, and LVT 'bears all the hallmarks of a political minefield'. Around the world, attempts to implement the tax have been limited, and its impact has been blunted by countervailing policies, along with lobbying from property interests [18]. Despite this, several countries have implemented LVT, including Australia, Denmark, Jamaica, Kenya, New Zealand, and Namibia [1]. These examples show how LVT functions in practice and has largely demonstrated the theories. New Zealand implemented LVT in the late 19th century to break up vast land holdings, successfully establishing a more equitable distribution of land with smaller, more intensively cultivated plots [15]. Similarly, more recently, Namibia established an LVT to 'discourage ownership of multiple farms,' which was also successful [16]. However, following the original radical LVTs, some countries have scaled back the rates to raise similar levels of revenue as traditional property taxes.

Implementing LVT has several practical challenges for decision-makers. The administrative complexity of LVT is cited as a key challenge to implementation, as the valuation of land separate from improvements is difficult given the limited evidence base, as a comprehensive cadastral database is required [25]. However, Woodruff and Ecker-Racz [15] argue that while valuing one parcel of land without improvements is difficult, valuing a wide number of parcels is far simpler. This challenge is only growing easier as GIS technology improves, with the ability to undertake Computer-Assisted Mass Appraisals [1,3]. In addition, self-valuations are possible, provided the valuation sets the compulsory purchase price to deter under-valuation [34,35]. The issues around valuation are also complicated by the idea of ‘unimproved’ value, which Loan and McCluskey [36] argue requires highly specialised skills in geology, geography, hydrology, rural economics, and valuation. This type of valuation is growing increasingly difficult in urban areas where improvements, such as drainage and sewerage, are impossible to separate, leading to calls to value land on location alone [37]. Additionally, different forms of land ownership, which can be private or public or a form of group/shared/collective ownership, have implications for the complexity of property rights and land valuation [38–40], hence LVT. Another potential barrier to implementation is LVT’s violation of the ability to pay principle. As land is an illiquid asset, which does not directly correlate to cash flow, one potential impact on the equity of LVT would be so-called ‘asset rich, cash poor’ individuals [41]. It is debatable how prevalent this demographic is, but nonetheless, any exemptions will impact the efficiency and land use incentives of LVT.

### 3. Methodology

The primary purpose of this paper is to explore the relationship between taxation and planning to understand how LVT will influence the equity of planning outcomes. The exploratory nature of this research leads to a qualitative research methodology, utilising Wales as a case study. Exploratory case studies are used to answer primarily ‘how’ and ‘what’ questions [42–44], which clearly aligns with this paper’s research questions, asking how current property taxes affect planning and what effects LVT will have. Exploratory case studies are best used to explore causal links that are too complex to be studied with surveys or experiments, meaning the complex nature of taxation, planning, and the interactions between these systems suit this approach [45]. The political nature of taxation and planning leads to value judgements and subjective conceptions of equity that are difficult to quantify, necessitating qualitative research methods.

Wales was chosen as the case study to limit complexity in two main ways. First, as the country where the policy has been proposed, meaning potential interviewees should be aware of the policy. Second, restricting the research to one jurisdiction limits variables, making the research more comparable. Property tax and planning are both devolved. Therefore, the range of planning systems across the UK would complicate the research. The study will focus on what Marshall and Rossman [46] term ‘elites’, with experience and knowledge of taxation, planning, and LVT, as its unit of analysis. Interviewing elites in this way is particularly useful for explorative research and generating new theories, as experts possess detailed technical knowledge and insights into institutional routines [47].

Semi-structured interviews were conducted with 15 experts from various relevant fields and positions, including four local tax officials, three public-sector planners from Welsh local planning authorities, three private-sector planning consultants, two private-sector chartered surveyors, two academics, and one valuation official from a relevant NGO. The sample size was inevitably small, given the highly technical nature of the research and the specific knowledge required to accurately answer the questions. Interviews were conducted between July and November 2022, lasting for a time ranging from 45 to 60 min. Apart from three interviews, all the interviews were conducted online via Zoom to provide flexibility for both the respondents and interviewers. Zoom interviews were recorded online, whilst the three in-person interviews were audio recorded. Interviewees were first contacted via email to establish interest and arrange meetings. These experts

were selected for their expertise and understanding of both the tax and planning systems in Wales via purposive sampling, where the researchers strategically selected information-rich participants. All the interview participants had current or previous professional experience with planning and/or property tax system in Wales. In selecting the interviewees, the goal was to achieve a wide range of opinions across numerous fields of expertise, what Flick [48] refers to as ‘variation sampling’.

Open-ended interview questions were designed to address the three research questions. A range of questions were asked, for example, ‘what is your understanding of a LVT and its potential benefits or limitations as a form of taxation?’, ‘what difference would implementing a LVT in place of Council Tax and Non-Domestic Rates make to the tax system in Wales?’ or ‘to what extent do you think implementing a LVT would lead to more equitable planning outcomes in Wales?’ Within these questions, the researchers were able to further investigate using follow-up questions tailored to interviewees’ expertise, such as the extent to which speculative land banking was an issue faced by planners and how large a demographic the ‘asset rich, cash poor’ were for tax officials. Tax officials were also asked how charging landowners would influence the collection of LVT, while planners were asked about how the tax would affect developers. Following the completion of interviews, respondents were asked to suggest other potential participants, unlocking expertise that would have been inaccessible. Using thematic analysis, the interviews were analysed, and a number of substantive themes and patterns were derived from the findings. This allowed for the data to be coded accordingly to ensure all relevant findings were captured and explored in a suitable context [44], informed by the review of relevant literature.

#### 4. Findings and Discussion

Overall, there was a consensus among the interviewees that LVT is ‘good in theory’ but ‘difficult in practice’. Several interviewees argued that there are considerable practical issues that can hamper the theoretical benefits of LVT. Many interviewees warned against seeing LVT as a panacea, instead arguing that most of the theoretical benefits could be achieved without introducing massive changes to the taxation system.

In terms of planning, it was accepted that Council Tax and Non-Domestic Rates are not ideally run in their current state and have led to numerous land use issues. However, generally, these issues were seen as solvable with reforms to existing taxes. Some interviewees warned against the political acceptability of using taxes to force land use decisions, which echoes the arguments of Bird and Slack [30] on using fiscal instruments to achieve non-fiscal goals. Interviewees also argued the relatively low rate of LVT ‘would not register greatly’ in encouraging development while emphasising complex market trends that LVT could not overcome. Therefore, LVT is not a viable solution to speculative land banking, which would persist in a private market, and could potentially render sites unviable in the short term. Ultimately, interviewees agreed that more equitable planning outcomes could be better achieved from within the existing system by utilising stronger controls and reforming existing taxes. In the following sections, we present our main findings under each research question.

##### *Q1: How Does the Current Property Tax Regime Affect the Equity of Planning Outcomes?*

Taxation was seen by most interviewees (11 out of 15) to have no direct influence on the planning system, with all planners interviewed stating they had ‘limited interaction’ on their day-to-day work. However, Council Tax and Non-Domestic Rates were acknowledged to have indirect effects in terms of land use and placemaking via the various exemptions for empty homes, second homes, and single person discounts, which allows inefficient land use, i.e., a situation where land is not used in an economically productive, environmentally sustainable, or socially beneficial way. While most councils have abolished the empty homes discretionary discount of 50%, the interviewed tax officials generally stated that this had not had the desired effect of encouraging homes back into use.

One of the interviewed tax officials stated that *“although many people are desperate for houses, charging council tax on these long-term empty homes has not changed things due to the varied complex factors that contribute to empty homes, including contested wills, mental health crises, and family situations that emphasise the human aspect of housing beyond financial calculations.”* Similarly, another interviewed tax official pointed out that *“there’s always a story with each home, meaning a simple tax-based solution would not resolve the issue nor improve efficiency”*. Furthermore, it was noted that many long-term empty properties are not listed for Council Tax, which would have to be rectified to introduce any economic incentive to put them to use. Another issue was that these properties were often in dire states of disrepair and could not easily be reabsorbed into the housing stock without considerable investment, again showing how deeper considerations are important to solve this issue. Finally, three interviewees highlighted that the wider housing crisis encourages people to ‘sit on assets’, securing them for their children as people worried about rising prices. The recent introduction of Council Tax premiums by the Welsh Government [49] on second homes also highlights how current issues can be resolved within the existing system. Ultimately, the interviews showed that wider policy efforts beyond taxation are needed to tackle issues of inefficient use of housing.

In terms of vacant land and development, four interviewees believed that Council Tax and Non-Domestic Rates currently have little influence, as they are only liable on completion. Although there is potential to trigger this liability early to improve build-out rates of developments, currently, there is no taxation on holding land, which does nothing to encourage development or deter speculation, potentially leading to less equitable outcomes in favour of landowners. The equity of current property taxes, which could indirectly affect wider issues of inequality and, therefore, tenure distribution, was considered poor by interviewees. The poll tax element of Council Tax fosters inequalities, where *“you could be rolling in money living in the biggest house in the world and still get 25% off”*, as one of the interviewed tax officials put it. According to Murphy, Snelling and Stirling [24], even though property taxes are not intended to be progressive based on income, many people consider the ability to pay to be a crucial component of fairness. However, Council Tax has become more regressive over the last decades.

A further complication with the policy proposal is the purpose of the tax. There was a conflict between those who saw Council Tax and Non-Domestic Rates as primarily funding local services and, therefore, something occupiers should pay for, and a wealth tax with the goal of achieving a more equitable system of taxation, which owners should pay. Non-Domestic Rates, in particular, were seen by the interviewees as a direct payment by businesses, which reflected the benefits received from the council, including waste collection, policing, and highways. A common trope across the interviews was the idea that Council Tax and Non-Domestic Rates were seen as a benefit tax by the public, with the view that contributions were directly reflected in the services provided to taxpayers. This was evidenced by one of the interviewed tax officials, who noted: *“All we do is collect bins, we had someone the other day, they had a missed waste collection (...) so they’ve written in straight away saying I’ve deducted 25% off my council tax because of this”*.

Therefore, the clarity of purpose was seen as key to a successful policy; if LVT was introduced as primarily a revenue raising tool, it would run into issues with landowners who lived outside the area and receive no benefit from services. If an LVT was instead intended as a tax on wealth to achieve redistribution, it would instead need to be levied at a national level with no connection to benefits receivable [16]. For instance, in Queensland, Australia, there are both local land value taxes (also known as property rates), which are used to fund services and infrastructure, and state land taxes, which are also used to fund services and infrastructure provided by the central government. This, however, would not align with the Welsh Government Tax Policy Framework that asserts that sub-national governments should focus on benefit taxation. The downside of this arrangement is the confusion it causes for the public, as they are presented as two different taxes, while they are one generic, recurrent tax employed by two tiers of government [50]. One

potential solution to this issue would be to decouple the benefits tax element of LVT to remove the issues with funding local services, allowing the tax to focus on redistributing land wealth to improve outcomes, while another tax could fund services with a better relationship to taxpayers' ability to pay. Three interviewees suggested that local income tax would be a fairer way to do it. One of the interviewed tax officials also shared the view that most of the apparatus for LVT makes it more suitable for national operation; *"central government is all set up with this, with control of the Land Registry and the Valuation Office"*. However, for councils, preserving local accountability and their ability to raise their own revenue is important, meaning that decoupling benefit and wealth taxes would be easier to justify than establishing a locally administered LVT.

*RQ2: What Are the Potential Impacts of Implementing an LVT on Planning Outcomes?*

Replacing existing property taxes with LVT could have numerous effects on planning outcomes, but interviewees stressed that while 'good in theory', there were significant 'practical difficulties,' and a 'significant number of obstacles' would need to be overcome to create a politically acceptable policy. Creating a policy that was widely accepted by the public would likely necessitate softening of any LVT, meaning that effects on planning would be diminished. One of the interviewed academics argued that *"the political understanding of LVT is particularly low across the world and political issues are a genuine practical impediment to the success of an LVT in Wales, meaning much of the unproven land use benefits would be abandoned to establish a workable policy in a hostile political landscape"*. Several interviewees pointed to a likelihood of high appeal rates due to the limited confidence in the valuation of this form of taxation. While other interviewees did not see this as an 'insurmountable barrier', they admitted that the highly politically contentious nature of any LVT would likely mean that its influence on planning would be dampened.

The key stumbling block between the theoretical planning benefits and the practical reality is how LVT would interact with the Welsh discretionary planning system. The Georgist vision of LVT levied at a high rate, rather than the existing use, would have a profound effect on planning, as it encourages development to the land's highest and best use (HABU). In other words, an LVT based on HABU, theoretically, encourages the development of vacant or under-used land because of the increased holding cost, thereby creating an incentive to sell the land or develop it [16]. However, one of the interviewed academics argued that, in practice, *"it is difficult to make that work with the current discretionary planning system"*. Currently, the HABU is dictated by the planning system, which is fundamentally incompatible with the Georgist idea of the market determining the HABU. This would form a key tension if LVT was implemented as it would create a cyclical relationship where the local authority would be encouraging landowners to develop through increased taxation while simultaneously preventing development, which would be politically untenable. Therefore, a Welsh LVT would have to abandon this principle and levy the tax on the current use class, meaning LVT would do little to encourage development and that the planning system would still create vast uplifts in value. Therefore, event-based land value capture would still be necessary to recoup unearned increments following planning decisions. This could be achieved through LVT, but it would cause significant issues for policymakers, as interviewees noted that the timing of the tax liability would have a profound effect, as triggering liability early could negatively impact developers. Conversely, if the liability was triggered too late, it would have little effect on improving build-out rates.

There are complex issues behind the use of land beyond purely financial decisions; all of these will affect whether an LVT would encourage development. Several interviewees mentioned wider economic factors, such as global market trends, interest rates, material, and labour costs, and personal factors, such as how long land had been in the family. This highlights how LVT *"probably wouldn't register greatly to a landowner's decision to give their land up for development, especially an LVT levied at a relatively minor rate"*, as an interviewed planning consultant mentioned. The idea that LVT would overcome the other

numerous market and personal considerations was criticised as naïve by the interviewed valuation official, as ultimately, landowners would not be incentivised to develop unless the LVT rate was penal, which would be politically inconceivable. If an LVT is valued based on the land's existing use rather than its HABU, the tax might not create any incentive to develop or sell land which is currently not used to its potential [31]. On the other hand, valuations based on land's HABU are more complex compared to those based on land's existing use, as valuers will need to determine what the HABU of the land parcel is [16]. Compared to a regulatory approach to planning with its zoning plans, a discretionary planning system provides less certainty with regard to the future use of land parcels. Nevertheless, an interviewed public-sector planner argued that *"even if LVT did encourage development, there are significant doubts over whether this would improve equity, as it would pressurise Local Planning Authorities (LPAs) to approve development that may not be in the public interest, leading to concerns that planning permission could be bought or sold, which could be a massive ethical issue"*.

According to the interviews, financial pressures, whether of developers or of LPAs themselves being encouraged to grow their tax base, were best kept separate, instead judging based purely on the public interest. This is especially true regarding ongoing developments, as currently, Council Tax is only liable on completion; therefore planning delays would increase tax bills, causing developers to pressure LPAs to speed up decision-making regarding planning applications. An interviewed private-sector chartered surveyor stated that *"the change from Council Tax to LVT would be a significant change to developers, which could in the short-term cause a lot of pain, potentially rendering sites unviable and impacting smaller developers particularly hard"*. Smaller developers, unlike volume housebuilders, are much less able to withstand the added costs that LVT would create, potentially threatening their businesses and, therefore, potentially harming equity. The surveyor cited an argument made by the large developer, Persimmon, that by increasing development costs, the marginal propensity to develop becomes slightly worse and therefore, more areas of Wales, particularly in the Valleys, becomes financially unviable. Two interviewees (i.e., a public-sector planner and a tax official) argued that LVT would impact city centres in Wales, potentially driving investment away. This argument raises questions over equity, as, on the one hand, LVT could recoup some of the spoils of Cardiff's success but also could hurt equity of outcomes if it stalled developments and damaged the Welsh economy.

The ostensible benefit of increasing development costs is the potential to alleviate speculative land banking. An interviewed private sector-chartered surveyor stated that *"there are occasions where developers have just sat there with a piece of land that they bought for buttons in the 1980s and that there needs to be something done"*. An interviewed public-sector planner pointed out that *"while [speculative] land banking was not an issue in Cardiff currently, it could become one in future similarly to London as prices rise, making speculation more lucrative"*. Other interviewees emphasised the complex factors that contribute to the issue, including the planning system itself, material costs, labour shortages and market absorption rates. Ultimately, LVT will not be able to overcome the fundamental tenets of private developers who will not harm their profits by oversupplying housing and crashing prices.

Even the more indirect land use benefits of LVT would have a complicated relationship with the planning system. For example, introducing LVT would put further emphasis on incorporating economic efficiency into land use decisions, which are not always compatible with a planning system acting in the public interest. Incentivising using land more profitably would discourage socially beneficial uses of land, potentially harming biodiversity, and amenities. While removing the HABU stipulation from the policy, instead levying LVT on the existing use class, it would prevent the redevelopment of cultural venues or other less profitable uses, more informal social benefits might be at risk. Green areas that were not designated parks but nonetheless had amenity would be taxed, therefore encouraging their development. According to the interviews, while these issues would be protected by planning legislation, this would put LVT at odds with the planning



system and its goals, threatening equity. In a similar vein, LVT could counterproductively encourage greenfield development, which is typically easier to build on than brownfield sites, which are harder to develop due to complex issues, including contamination, flood provision, and access. An interviewed public-sector planner argued that *“reducing the viability of centrally located brownfield sites by increasing the tax burden could encourage developers to choose the most lucrative form of development, greenfield sites on the outskirts of cities”*. This would potentially go against all the tenets of planning, threatening policies, such as brownfield first, sustainable development, and carbon reduction targets, which would be counterproductive to an equitable planning system.

Overall, given the substantial misgivings about how LVT would interact with the planning system, there is limited scope to utilise the tax system to achieve planning goals directly. However, even indirectly, the potential benefits are unlikely to be fully realised, as incentives towards economic efficiency contradict the social aspects of housing and land use. The violation of the ability to pay principle is the primary reason for this, where levying high taxes on those who cannot afford to pay to encourage more economically efficient land uses would face considerable political opposition. Most interviewees agreed exemptions were necessary for the so-called ‘asset rich, cash poor’, particularly pensioners, which would lead to the proliferation of inefficient use. This could be mitigated by progressive rates on multiple holdings, which would be less politically unacceptable, but nonetheless, the human side of housing would necessitate compassion over efficiency. Additionally, exemptions would create loopholes, harming equity, as many interviewees noted the industry of tax avoiders that would be pressed into action to exploit loopholes and subvert policy objectives.

### *RQ3: To What Extent Would LVT Produce More Equitable Planning Outcomes over the Current Tax Regime?*

Overall, there was not any consensus among the interviewees on whether LVT would achieve more equitable planning outcomes, primarily because there were so many unknowns. An interviewed academic stated that *“there are a lot of principles that we can all debate over, but really it all comes down to tax design”*. Principally, political feasibility would mean many planning objectives of LVT would be watered down, resulting in a substantially reduced effect on planning outcomes. Furthermore, using a tax to force more efficient land use decisions would likely be deeply unpopular, in a similar way to the so-called ‘Bedroom Tax’ (The Bedroom Tax, or under-occupancy penalty, resulted from the British Welfare Reform Act 2012 whereby tenants living in public housing (aka council or social housing) with rooms deemed ‘spare’ face a reduction in Housing Benefit.) [51]. The violation of the ability to pay principle would also necessitate more moderate rates, along with the policy’s purpose as a replacement for Council Tax and Non-Domestic Rates, which would mean there was less of an effect on land use decisions. The prevalence of ‘asset rich, cash poor’ people in Wales would also require exemptions, allowing inefficient land use and exploitation of loopholes, impacting equity. Progressive rates for multiple land holdings could help distribute land more equitably, breaking up large estates while preserving equity for those who cannot afford to pay for their own home.

According to the interviews, in the short term, while LVT would be unlikely to encourage development, levying tax on ongoing developments could render sites unviable, particularly for smaller developers, exacerbating the housing crisis. According to an interviewed public-sector planner, *“LVT would ultimately be a very blunt instrument, and imposing economic efficiency onto planning would be incompatible with the goals of the [planning] system”*. Some interviewees discussed that most of the planning equity objectives could be better addressed from within the planning system, such as addressing urban sprawl with green belts, while the tax would not be sufficient to achieve its most ambitious goals where the market essentially is going to determine how densely developers want to build.

Some interviewees suggested that LVT did not go far enough in solving the fundamental question of land ownership. A private-sector planning consultant stated that *“currently the market dictates and the planning system just tickles around the edges, [thus] overcoming this relationship to secure equitable outcomes requires stronger state control over land.”* Similarly, an interviewed public-sector planner described how it was ‘patently obvious’ that state ownership of land could make things ‘better and more equitable,’ by producing higher quality outcomes than the private sector. This view was shared by both public and private sector interviewees, who noted that LVT functioned much better where the public sector owned the entire land, as this enabled land use to be planned more effectively without political arguments. LVT would be highly politically contentious as it would create winners and losers [31], while the state owning more land could eliminate these winners and losers to plan in a more equitable way. LVT alone is not sufficient to overcome the market forces that produce slow build-out rates, which can only be overcome through stronger state action to purchase and develop land. Therefore, moving away from policies that attempt to encourage private developers into ‘shooting themselves in the foot and harming their profit’ as a public-sector planner put it. Instead, the state can produce better quality developments than volume housebuilders because it can offset the value of the land against the development to achieve equitable planning outcomes.

Regarding the proposal to replace Council Tax and Non-Domestic Rates with LVT in Wales, most interviewees highlighted that implementing the proposal will be highly politically sensitive both for property owners and local authorities, requiring an extremely careful approach. This is particularly important with regard to the clarity around the purpose of taxation, whether an LVT will be introduced as a tax on wealth, a land policy instrument to manage development, or a tool to raise money for services provided at a local level. Funding local services through the less stable tax base of land was also not seen by some of the interviewees as desirable, given the long precedents of property taxation and valuation. Land is prone to fluctuations in value, which could lead to shortfalls in revenue, which is particularly concerning with the effects of climate change being felt, as future changes to climate policy on matters, such as flood risks could impact development potential and, therefore land values. Issues with the validity of valuation would also hurt the political acceptability of any LVT, as unimproved value is much harder to understand than capital value. This was the case in South Africa, which abolished its LVT because the public did not fully understand the land valuation [52,53]. An interviewed public-sector planner highlighted a similar concern, stating *“the enormity of the practical problems in providing valuations, explaining valuations and ultimately defending those valuations in the light of appeals can lead to serious issues”*. Furthermore, any LVT replacing existing property taxes would not necessarily be raising the same amount of revenue as this would be dependent on tax design, requiring careful modelling to determine exactly how the rates and thresholds are set to generate comparable revenue. Some of the interviewees argued that most of the theoretical planning benefits of LVT could be built into the existing system. First, by reforming Council Tax to make it more equitable and progressive. An interviewed private sector-chartered surveyor discussed that *“if you run the system as it was originally envisaged, existing property taxes can be a good, robust form of taxation”*. Introducing higher bands for those with more wealth and regular revaluations to capture rising values would create more equitable outcomes while levying tax on the owners would be fairer and potentially more efficient.

Highlighting the importance of equity along with economic efficiency, most interviewees agreed it would be better to reform planning itself to better encourage development and protect social goods. This was especially true given the incompatibility of HABU to the Welsh discretionary planning system. Some interviewees argued that instead of LVT, policymakers could look at reforms to land value capture to introduce more equitable outcomes by strengthening S106 agreements, which have been unable to truly capture the publicly created uplifts in land value. Where interviewees were more hopeful about the potential of LVT was by introducing it separately to raising local revenues for the

purpose of either targeting wealth inequality or overtly encouraging behaviour change. One of the interviewed academics mentioned that *“introducing a tax on vacant land to examine the effects of LVT would avoid creating too many winners and losers and potential political headaches”*. However, fundamentally, LVT is not best suited to replacing property taxes that fund local services, which ideally should be levied explicitly as a wealth tax.

## 5. Conclusions

Many scholars have argued that Land Value Tax is an economically efficient means of taxing wealth with limited economic distortion. Despite the strong theoretical rationale for using LVT, the application of this type of taxation has remained limited in practice. Recently, proposals to replace existing property taxes (i.e., Council Tax and Non-Domestic Rates) in the UK with this form of taxation have re-emerged on the political scene. In 2020, a report commissioned by the Welsh Government investigated the idea of replacing Council Tax with a form of LVT. Through conducting an exploratory qualitative study, this paper aimed to develop a better understanding of the potential impacts of introducing an LVT on the equity of planning outcomes in the context of a discretionary planning system, such as the Welsh planning system.

The question of whether replacing current property taxes with an LVT would lead to more equitable planning outcomes is difficult to definitively answer, given the value-based nature of the concept of equity and the complex nature of land value. However, our explorative study showed that LVT is not a quick fix to the widespread issues of the current property tax regime and to planning more broadly. The likelihood is that a workable policy would do little to create a more equitable planning landscape, instead focusing on securing tax revenues at a similar rate to existing property taxes. Most of the theoretical benefits of LVT hinge on the specific tax design, but any LVT that sought meaningful influence on land use decisions would necessarily be punitive and, therefore, highly politically contentious. An LVT levied at a relatively minor, and therefore politically acceptable, rate would have little potential to incentivise more efficient use of land. This represents a significant deviation from the Georgist panacea that addresses the fundamental question of land ownership itself. Furthermore, the necessary acknowledgement of the human side of the housing, along with the prevalence of so-called ‘asset rich, cash poor’ individuals, would also mean that similar exemptions to those in place under the current tax regime would need to remain under an LVT. Therefore, establishing a workable LVT would be significantly limited in its scope to affect land use decisions and establish more equitable planning outcomes.

The political challenges LVT would face in Wales, where private land ownership is so embedded, would also impact the way, it would interact with the planning system. While this is similarly affected by tax design, it is clear that the relationship between the blunt instrument of LVT and the nuances of the Welsh discretionary planning system would open up further issues. Issues, such as speculative land banking and buildout rates, will not be solved by LVT alone due to the complexities of market forces and private interests. In the short term could even threaten the viability of some developments, particularly those of smaller developers. LVT could also harm the equity of planning outcomes by increasing pressure on local planning authorities to approve developments that would grow the tax base, even if these were not strictly in the public interest. LVT would ultimately introduce market considerations into the planning system that could be at odds with the goals of planning authorities by incentivising the development of greenfield sites, green spaces, and cultural venues to more profitable uses.

Additionally, almost all the theoretical benefits and advantages of LVT could potentially be achieved via other means, including reform to both current property taxes and the planning system itself. First, reforming the Council Tax to reflect property wealth, and resolving issues with the poll tax element of the tax, is one important step towards a more equitable system, and removing the exemptions that lead to inefficient land use in Wales. As Bird and Slack [30] argue, policymakers should be wary of introducing fiscal

instruments to influence planning outcomes when they could instead resolve issues through the existing planning system. This is especially true for LVT in a discretionary system, where issues would arise with the timing of taxing development, necessitating land value capture mechanisms along with other protections for unprofitable uses. Given that in a discretionary planning system, land value capture mechanisms would still be needed even with LVT in operation, improving and strengthening these mechanisms to recoup unearned increments is important to achieving more equitable planning outcomes. More research is needed to establish how an LVT can be designed to complement land value capture mechanisms. In addition, given the issues around the political acceptability of LVT, more research is needed on how land valuation could be conducted in a way that is understandable to the public to enable public acceptance of the tax. Ultimately, to achieve more equitable planning outcomes, the state should take a more active role in land ownership, as it is best placed to overcome market failures and introduce measures to secure development in the public interest. An LVT that remained conflicted between a wealth tax that sought redistribution of land, and a benefit tax that funded local services, would be unable to successfully marry these goals and coexist alongside the discretionary planning system. Therefore, separate policies, including wealth taxes that attempt to establish more equity between individuals, and a strong planning system that secures equitable outcomes in the public interest, is the best route to a more successful planning landscape in Wales and beyond.

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