



**Environmental Pillar**  
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# Environmental Pillar

Policy Statement on

# Site Value Tax

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# Environmental Pillar Policy on Site Value Tax

The Environmental Pillar believes that Site Value Taxation is a better form of asset taxation than taxes based on the total market value of property and that this must influence Government decisions with regard to proposed property taxation.

## Definition of Site Value Tax

Site Value Tax (SVT) is a charge on the unimproved value of land, i.e. it is not directly affected by physical capital built on the land (such as buildings or other improvements). It is instead a tax purely on the value of location. It is expressed as a percentage of the value of the site and is typically payable annually.

## Rationale for a site value tax

### SVT does not distort economic outcomes

It is a basic principle of economics that taxes typically distort economic outcomes. For example, if a large proportion of an additional hour of overtime is taken in tax, workers will be less prepared to do overtime than if the tax burden were smaller. In economic terminology, labour supply responds to taxation. The same principle applies to the supply of other factors of production such as machinery or buildings, whose supply can vary. The supply of land, however, is fixed and thus a parcel of land cannot be withdrawn from supply; it can merely lie idle. Thus, SVT cannot affect economic outcomes: it is not distortionary.

### SVT is an appropriate charge for public goods whereby those who benefit more pay more

A further economic rationale for SVT comes from the fundamental reason that land values vary. Much of the value of a site is created at the stroke of a pen purely by its designation for example as residential or agricultural. More generally, land values vary with the value of surrounding amenities. These amenities are typically public goods, either directly (i.e. provided by the Government with taxpayer money) or indirectly (i.e. amenities created by the populations living there, such as social capital, or a rich market for jobs, services or cultural activities). All these amenities incur costs of maintenance or costs of opportunity. Therefore, if public goods create private value, the fairest way of paying for their maintenance is to recoup some of that value from those who benefit. It can therefore be argued that Site Value Tax is not a tax in the conventional sense. It is better thought of as a maintenance charge for the value of amenities enjoyed by landowners and residents.

## Specific benefits of SVT

**SVT can be seen as the best form of tax for funding Local Government.** SVT recovers the benefits created by Local Government by investment in social and physical infrastructure. The introduction of SVT would present the opportunity for Local Authorities to engage with their constituents on the provision of new services and infrastructure, making the case for additional tax to pay for new infrastructure, which creates higher land values.

**SVT does not penalise those who maintain or improve their properties.** Under tax systems where the total market value of the property is taxable, actions such as maintaining protected structures or making improvements (improving energy efficiency, for instance) are in effect penalised.

**SVT promotes the best use of land as it can be seen as a tax on land-hoarding and other unproductive uses.** Derelict sites and land banks at the edge of towns that are zoned residential would be subject to the same tax per unit of land as those with homes built on them. This provides a strong disincentive to the wasteful use of scarce land. By placing a value on a site regardless of the economic activity (or lack of it) SVT encourages the use of all zoned land and discourages the zoning of new land. In other words it will tend to favour the development of brownfield over greenfield sites. By encouraging the infill of derelict or underused land in urban areas, the tax will promote much-needed development without contributing to urban sprawl or the loss of valuable agricultural land.

**SVT will raise taxes on speculative land banks,** conversely a system where only the total market value of property is taxable such assets would be unfairly exempted from taxation.

**SVT will be a stimulus for job creation.** By encouraging development of zoned sites SVT will support recovery within the construction industry. A tax on the total market value of property however may have the opposite effect by discouraging the extension and renovation of existing properties.

**Encouraging compact development has the related benefits of being able to concentrate service provision.** Everything from sewage systems to bus routes benefit from the concentration of development within existing developed areas.

**SVT penalises property hoarding for speculative purposes.** Because of the annual charge involved, productive investment in residential property, e.g. where it is rented out to tenants, would be encouraged, while holding vacant property in anticipation of future gains in value, as occurred extensively in Ireland during the 2000s, would be discouraged. It can therefore contribute towards the minimisation of bubbles and crashes in the residential property market.

**SVT would be simpler to assess than a tax on buildings.** A tax on total market value requires detailed information on each property including extensions, improvements, and general condition. By contrast most sites would be valued as part of urban blocks or suburban estates and their value would only change based on size.

**SVT is easy to administer, easy to collect and hard to avoid.** Every square metre of Ireland is owned by somebody and there is a record of who that somebody is. It will therefore be relatively easy to account for and relatively harder to avoid a tax on the value of a site. Having established the necessary databases of sites, ownership and site value it will be straight forward and therefore cost efficient to collect the taxes.

**SVT is highly transparent.** The various databases containing the information to calculate SVT are or can be in the public domain. The methodologies used to combine their information to give the final tax burden can be made public. Calculation of SVT can therefore be a highly transparent process that will give a solid basis for the necessary appeals process to deal with specific cases where owners feel that the calculated value does not reflect the true value of the site.

**SVT values will typically be lower for rural dwellers.** The valuation of rural sites will reflect the typically lower level of services provided in comparison to those provided to urban sites. To some degree this can be seen as an appropriate equipoise to the Carbon Tax that has favoured urban dwellers over car dependant households in rural areas.

## Potential contribution of SVT to a broader tax reform

At a basic level SVT is an equitable, effective and efficient way of taxing assets as an alternative to a total market value based property tax. However SVT has the potential for much deeper integration into our taxation system:

- If SVT were used in place of development levies and other initial charges, the cost of new investment would be recovered from all residents and not just new ones as at present. This would also reduce the cost of new development and stimulate new construction.
- If SVT were substituted for commercial rates the benefits would be similar to those described for the application of SVT to residential property and sites.

## Recent quotes from Government sources regarding SVT

***'As part of our fiscal strategy the new Government will consider, arising from the previous Government's deal with the IMF, various options for a site valuation tax'***

Programme for Government 2011, page 16.

***"A gradual shift of the tax base away from taxing what we want more of, such as investment and labour, towards taxing what we want less of, such as pollution, would help contribute to the Government's objective of creating a resource-efficient and smart green economy"***

Draft Framework for Sustainable Development in Ireland We have the published version now Is this quote still in there?

***"We consider that there is a sound economic rationale for considering the introduction of a land or site value tax"*** OECD Environmental Performance Review of Ireland 2009

***"An interim Site Value Tax will be introduced in 2012, applicable to all land other than agricultural land and land subject to commercial rates. The interim measure will involve a fixed local service contribution of about €100 per annum (€2 per week) which will raise €180 million from households. The final Site Value Tax will be introduced in 2013 when valuations have been completed. It is estimated that Site Value Tax will apply to 1.8 million households and zoned lands that would equate to an estimated further 700,000 houses. At an average of just over €200 per dwelling (or site) this would raise the €530 million full year amount targeted for the Plan period. For full implementation of the tax, commercial rates will be moved to a site value basis also"***

Commission on Taxation 2009

*Whilst this document was developed through the processes of the Environmental Pillar it does not necessarily represent the policies of all its members.*

## **Bibliography**

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Implementing a Site Value Tax, Ronan Lyons 2012  
<http://smarttaxes.org/wp-content/uploads/2012/01/Site-Value-Tax-in-Ireland-Identify-Consulting-final-report.pdf> [Accessed 15/03/2012]

An outline of the general benefits to society, the local economy and the environment 2011  
[http://smarttaxes.org/wp-content/uploads/2011/05/SVT\\_brochure\\_sm.pdf](http://smarttaxes.org/wp-content/uploads/2011/05/SVT_brochure_sm.pdf) [Accessed 15/03/2012]

## **Other Resources**

<http://www.ronanlyons.com/2012/02/10/would-you-rather-tax-gardens-or-jobs-the-site-value-tax-debate/> [Accessed 15/03/2012]

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