FEARANN COIMHEARSNACHD NA H-ALBA | COMMUNITY LAND SCOTLAND

Pearce Institute | 840-860 Govan Road
Glasgow | G51 3UU
e: info@communitylandscotland.org.uk
www.communitylandscotland.org.uk

Community Land Scotland

Preliminary position paper on fiscal measures in support of land reform and encouraging landownership behaviour change

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Community Land Scotland consider progressive taxation to be an important policy instrument in support of land reform and landowner behaviour change. This can significantly diversify landownership and expand community ownership, ensuring greater transparency in the land market and that land serves the common good.

Scotland's uniquely concentrated pattern of landownership is enabled and supported by a range of generous grants, subsidies and tax exemptions which drive up land prices and build and protect private wealth. This is a system of support which does not encourage economic change in support of wider public policy goals. Some regard it as a system of 'corporate welfare'.[1] Indeed, the scope to reduce individuals' and entities' tax burdens can often be a significant underpinning security and motivation for large-scale and largely risk-free investment in land purchases.

Community landowners do not qualify for access to such financial protections relating to inheritance, capital gains and income tax as they do not sell their land or earn direct personal income from land-based activity.

At a time when there are dramatic reductions in public sector spending, land prices are rising by as much as 450% over five years, and there is significant Foreign Direct Investment in Scotland's land for commercial forestry, carbon sequestration and inflation hedging through land banking.[2] The time is apt to have a robust discussion about the financial mechanisms available to ensure that this investment, and the associated inflation of land prices, generates wealth which is kept in Scotland and used for the public good.[3]

The SNP manifesto for the 2021 Scottish Parliament Election followed in the footsteps of previous governments in considering the question of introducing 'land value legislation'.

[1] 'Corporate welfare' is an idea associated with Ralph Nader and used to describe the system of grants, subsidies and other favourable financial mechanisms used to protect and advance corporate interests.
[2] Scotland's Rural Land Market – Review of 2022 Insights (landcommission.gov.scot)
[3] Community Land Scotland highlights Carsphairn as example of how communities can't compete against wealthy investors on land purchases - Daily Record

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Community Land Scotland, along with other third sector organisations and thinktanks agree that there could be merit in widening forms of land related taxation to seek to impact behaviours that will encourage increased social equality, diversify landownership patterns and help foster further local economic and community development and build community wealth. There is a clear and legitimate precedent for governments to use taxation to seek to alter behaviours (smoking, alcohol, car fuel, etc). In relation to land it is important to note that the Scottish Government has already introduced a premium on second home purchases to create a disincentive to such transactions.

The Scottish Land Commission have published detailed research on taxation reform related to land, as have Future Economy Scotland and Common Weal. The purpose of their proposals is to, as the Land Commission themselves say, 'act as a disincentive to acquisitions that perpetuate or further concentrate the pattern of ownership … by signalling policy intent and therefore shaping market behaviour.'[4] Moreover taxation reform could be a means to secure public returns from land value increases which have been significantly increased by public subsidy available to landowners.

Community Land Scotland supports the need for fiscal reform of the subsidy and taxation system to promote incentives for changed behaviours in land ownership. We suggest that the following progressive financial mechanisms could be addressed to secure a more equitable distribution of landownership and land management practices which work in the public interest:

1. There should be a requirement that registering a title to own land in Scotland is limited to those registered in Scotland or the UK for tax purposes. This requirement applies to all landholdings, not just large-scale landholdings.[5]
2. The Land and Buildings Transaction Tax (LBTT) should be amended to include an escalating supplement on sales of land meeting specific criteria with revenues from supplement being added to the Scottish Land Fund.
    a. There could be a sliding scale of supplement by bands of hectarage across all ownership once over a 500ha aggregate threshold
    b. This would follow the precedent of the Additional Dwelling Supplement for second homes – a similar mechanism could be applied to individuals who own, in aggregate,

[4] Land Reform and Taxation: Advice to Scottish Ministers (landcommission.gov.scot), pp.10-11.
[5] This is suggested by Future Economy Scotland in their recent paper *Land Reform for a Democratic, Sustainable and Just Scotland* (2023), p4 - Land Reform for a Democratic, Sustainable and Just Scotland | Future Economy Scotland.

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above the thresholds through multiple landholdings with rates escalating to punitive levels as the hectarage increases

   c. We note that the Scottish Land Commission and Future Economy Scotland have recommended similar amendments to LBTT

3. All land should be added to the Valuation Roll, even if exemptions apply, to ensure transparency of ownership and value
   a. Properties exempt from paying Non-Domestic Rates, including agricultural and forestry land, are not valued at all, so there is no public record of their ownership and value. Ensuring all land was added to the valuation role would allow greater public insight into land ownership and value and would allow for future adaptations to Non-Domestic Rates if needed. This change was recommended in the 2022 Scottish Land Commission's Report on Land Reform and Taxation.[6]
   b. The lack of transparency around landownership is a continual hurdle for diversifying ownership and for communities to be able to further their land ownership ambitions.
   c. Greater transparency of landownership and sales could be the bedrock of further land reform
4. Subsidy reform and greater regulation
   a. Ensuring that existing grant mechanisms (e.g. Peatland Action, Forestry Grant Scheme, direct agricultural payments) have conditionality attached to ensure public money is only given to landowners with significant landholdings (over 500ha) when their land management and ownership works in the public interest (e.g. for social, economic, cultural and environmental regeneration)
   b. Subsidies and grants should target support where most needed and avoid inadvertently widening existing inequalities
   c. Sitting alongside the existing subsidy incentive mechanism a regulatory system should exist as a supporting measure to ensure land works in the public interest. This could include statutory Land Rights and Responsibilities Statements and compulsory Land Management Plans which are enforced through meaningful regulatory measures such as Compulsory Sales Orders for non-compliance

[6] Land Reform and Taxation: Advice to Scottish Ministers (landcommission.gov.scot), pp.10-11.

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Alongside the amended fiscal arrangements above we propose that the following taxation measures could be explored. Community Land Scotland would like to see the concept of land value tax fully explored and the pros and cons exemplified:

5. A land tax complementary to Council Tax and enabling the burden of CT to be reduced with a progressive flat rate percentage tax based on land and property values
    a. Research by Common Weal provided an illustration of the potential effects of such a tax, they found that a Property Tax on buildings set at 0.63% could attract up to £650 million extra in 2023 given house price rises compared to 2019
    b. Extending this 0.63% rate to land could raise an additional amount of around £450 million based on 2022 land prices
6. The negative impact of inheritance tax and capital gains exemptions on the ambition to encourage greater diversity in landownership requires to be urgently addressed
    a. Within any further UK reviews of devolving taxation to Scotland the additional policy flexibility that could come from devolving these taxes needs to be considered
7. The potential reform of Non-Domestic Rates including the following recommendations:
    a. Additional reliefs on non-domestic rates (NDR) and council tax for newly built properties on long-standing vacant sites to incentivise reuse[7]
    b. A new power to enable local authorities to continue to apply NDR to newly derelict properties to discourage them from being allowed to fall into disrepair[8]
    c. The potential initiation of a phased re-introduction of non-domestic rates for forestry land with targeted reliefs and/or penalties that are conditional on whether employers meet fair work criteria, such as the existence of a collective bargaining arrangement, adherence to the real Living Wage and other criteria[9]
8. Valuation principles for any future land tax
    a. In 2014 the Land Reform Review Group final report noted that a taxation on land values, rather than property values would be a progressive step which would:
        i. reduce the disincentive to invest in new buildings insofar as the value of the new building will not itself be subject to additional taxation

[7] Land Reform and Taxation: Advice to Scottish Ministers (landcommission.gov.scot), p.12.
[8] Land Reform and Taxation: Advice to Scottish Ministers (landcommission.gov.scot), p.12.
[9] This final point is taken from Land Reform for a Democratic, Sustainable and Just Scotland | Future Economy Scotland, p.5.

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ii. recognise that much of the value of land is not intrinsic, but is created by the rules which apply to its use, for example through the planning system, land which has been redefined to housing rather than agricultural use which immediately increases in value[10]

b. Recognising these principles could allow for the introduction of progressive 'clawback' taxation which would see some of the equity from any land valuation uplift coming back to the wider community through taxation. This is particularly applicable to examples of 'betterment' where public changes (through infrastructure, wider economic uplift, planning permission etc) result in the value of land increasing[11]

[10] The Land of Scotland and the Common Good - Report of the Land Reform Review Group (www.gov.scot), p.172.

[11] 5dd69d3b1fba6_LAND-FOCUS_Land-Value-Tax-October-2018.pdf (landcommission.gov.scot), p.3.