

Applying Annual Ground Rent (AGR) – Paper One

Summary:

- The current taxation systems are complicated, disincentive and open to tax evasion.
- Propose Annual Ground Rent (AGR) to replace Council Tax.
- Propose Income Tax be reduced by 3 pence in the pound.
- Propose AGR rate of 80 pence per square metre charged on every £20 of Land Valuation.
- AGR to be charged on all land including derelict and vacant plots.
- **Case One:** Low income, high-density dwelling – **Savings of £385.**
- **Case Two:** Average income, average price dwelling – **Savings of £355.**
- **Case Three:** High income, high price dwelling – **Pay additional £4324.**
- Annual Ground Rent (AGR) could raise **£3.68** billion to fund local public services.
- Annual Ground Rent (AGR) leaves **£342 millions** more money in taxpayers' pockets.

Annual Ground Rent (AGR) charged on all urban and rural land in Scotland, including derelict and vacant land, could effectively **replace all other forms of taxes** to provide a simple and fair means of funding government services.

The increasing value of land is created by our expanding need for homes, infrastructure and services. At present the private owners of land retain the increased “Public Value” but under Annual Ground Rent (AGR) the “**Public Value of land**” is returned to the public domain to meet the cost of the public services required by society in general.

As a first step it is proposed that Annual Ground Rent (AGR) **replaces Council Tax plus 3 pence in the pound off Income Tax.** It is proposed that **Local Authorities** using their current collection system **collect and retain** the AGR to fund essential public services.



Scotland's land includes the mainland, the islands and our coastal seabed plus the seabed within our Exclusive Economic Zone (**Scottish Land comprises approximately 51% of the total UK Land**).

The Office of National Statistics quotes the land area of Scotland (excluding the seabed) as 77,800,000,000 square metres, of which some 6 % is in urban usage.

The area in urban usage, amounting to approximately 4,600,000,000 square metres, when charged to provide an average Annual Ground Rent (AGR) rate of £0.80 per square metre, could generate **£3.68 billion** to fund Public Services.

According to the most recent Government Expenditure and Revenue Scotland (GERS) report, Income Tax amounting to £11.41 billion was raised in Scotland. **A reduction of 3 pence in the £ reduction in Income Tax would leave some £342 millions per year more money in taxpayers pockets, thereby boosting local economies.**

Council Tax is expected to generate £1.9 billion in 2015/16.
Business Rates is expected to generate £2.8 billion in 2015/16.
Local Authorities received top-up grants of £10.8 billion from Scottish Government in 2014/15.

Ground Valuation & Initial Annual Rates per Square Metre (m2)
(1 acre = 4047 sq. metres. 1 hectare = 10,000 sq. metres)

| Ground Valuations | Rate Payable |
|--------------------------|---------------------|
| Up to £5 | £0.20 |
| Over £5 up to £10 | £0.40 |
| Over £10 up to £20 | £0.80 |
| Over £20 up to £40 | £1.60 |

Over £20, within every step valuation increase of £20, the Annual Ground Rent (AGR) rate payable will increase in steps of eighty pence (£0.80) per square metre (m2).

e.g. **Ground valuation of £71 per m2 pays AGR at a rate of £3.20 per m2.**
£71 lies within step £60 to £80 (round up). 4 x £0.80 = £3.20.

e.g. **Ground valuation of £990 per m2 pays AGR at a Rate of £40 per m2.**
£990 divided by 20 equals 49.5 (round up). 50 x £0.80 = £40.00

The higher the ground value then the higher will be the Annual Ground Rent (AGR) payable to fund public services – providing a progressive and much fairer system than the current systems that disproportionately penalise those on lower incomes.

Since land is fixed in place and cannot be moved, then tax avoidance is eliminated, and since all land could incur an Annual Ground Rent (AGR) payment, the overall base for raising revenues for public services will increase.

Annual Ground Valuation

Scotland currently has in place a basic system of Assessors experienced in Land and Property Valuation and the system includes a Valuation Appeals process. This system is capable of being upgraded to handle the increased quantity of valuations.

Under the Lands Valuation (Scotland) Act 1854, Assessors are responsible for the valuation of all heritable properties for local taxation purposes. Each of Scotland's 32 Local Authorities is a Valuation Authority and responsible for appointing an Assessor who in turn compiles and maintains a Valuation Roll and Council Tax Valuation List.

*The Assessors are required to balance the interests of individual ratepayers against those of others, in terms of valuation levels. The independence of the Assessor is necessary to ensure that decisions are made on considerations of value without political pressure.
(See Scottish Assessors Association www.saa.gov.uk).*

Quantity Surveyors accredited by the Royal Institution for Chartered Surveyors carry out valuation assessments in the commercial market.

Contrary to the general conception Land Valuation Maps based on computer generated Geographical Information Systems can readily be created given political support.

Case One: The following case illustrates savings of **£385** for a married couple with two children, with both children at school, living in a house on a high-density housing estate in Glasgow. One adult is on a Scottish Living Wage and the second adult is unemployed.

- a) Wage earner on Scottish Living wage of **£17,160**.
£8.25 x 40 hours x 52 weeks = £17,160.
- a) Allowances for two children: **£1788** (1st -£1076, 2nd -712).
- b) Wage earner Income Tax payable: **£1669**.
*Wage - £17,160.
Plus Child Allowances - £1,788.
Less Personal allowance - £10,600
£8348 @ £20% is £1669.*
- c) Wage earner National Insurance payable: **£1819**.
£17160 @ 10.6% - £1819.
- d) Value of House is **£34,000**.
*Cost to build - £14,500 (43%)
Profit Margin - £8,500 (25%).
Ground Valuation is **£11,000** (32%).
Area of plot is 505 m².*
- e) Council Tax payable on Band B is **£943.44**.

- f) Water charge is £141.68 and Sewerage Charge is £164.43 (**£306**).
- g) Annual Ground Rent (AGR) is **£808**.
Ground Valuation is £11000 divided by 505 = £21.8 per m2.
AGR rate for Ground Valuation of £21.8 per m2 is £1.60 per m2.
AGR payable is 505 multiplied by £1.60 per m2 = £808.
- h) Wage earner current outgoings are **£4737**.
Council Tax - £943.
Water & Sewerage Charges - £306.
Income Tax - £1669 (£8348 @ 20%).
National Insurance - £1819.
- i) Annual Ground Rent replaces Council Tax and PAYE is reduced by 3 pence in the pound:
 Adjusted main earner outgoings are **£4264**.
Annual Ground Rent (AGR) - £808.
Water and Sewage charges - £306.
Income Tax - £1419 (£8348 @ 17%).
National Insurance - £1819.
- l) Potential savings is **£385**.
Council Tax @ £943 – AGR @ £808 is £135.
Income Tax £1669 - £1419 is £250.
£135 plus £250 is £385.

Case Two: The following Case illustrates **savings of £355** for an average family, earning average wages, owning their average sized house, in a town in the mid belt of Scotland.

A Married Couple with two children, with both children at school, living in a modern average 3-bedroom house in a town in **East Lothian**.

- b) Primary wage earner on national average wage of **£27,045**.
- c) Spouse on national average part-time wage of **£9421**.
- d) Allowances for two children: **£1788** (1st -£1076, 2nd -712).
- e) Primary wage earner Income Tax payable: **£3647**.
Primary earner - £27,045
Plus Child allowances - £1788
Less Personal allowance - £10,600
£18,233 @ 20% is £3647.
- f) Primary wage earner National Insurance payable: **£2866**
£27045 @ 10.6% is £2866.
- g) Spouse pays no Income Tax on £9421.

- h) Spouse National Insurance payable: **£567**.
- i) Council Charge payable on Band G (£106K to £212K) property is **£1862**.
- j) Water Charge of £321.9 and Sewage Charge of £373.65 (**£695**).
- k) Average size of plot for 3-bedroom property is **1/8 acre (505 sq. metres)**.
- l) National Average Value of 3-bedroom house is **£168,800**.
Cost to build -£94,500 (56%).
Profit Margin: £37,300 (22%).
*Local Land price for 1/8 acre (505 sq. metres): **£36,000 (21%)**.*
- m) Annual Ground Rent (AGR) for plot is **£1616**.
 Ground Valuation of £36,000 divided by 505 = £71 per m².
AGR rate for Ground valuation of £71 per m² is £3.20 (see table).
AGR payable is 505 multiplied by £3.20 per m² = £1616.
- n) Main Earner current outgoings are **£9070**.
Council Tax - £1862.
Water and Sewage charges - £695.
Income Tax - £3647 (£18,233 @ 20%).
National Insurance - £2866.
- o) Annual Ground Rent replaces Council Tax and PAYE is reduced by 3 pence in the pound:
 Adjusted main earner outgoings are **£8715**.
Annual Ground Rent (AGR) - £1616.
Water and Sewage charges - £695.
Income Tax - £3538 (£18,233 @ 17%).
National Insurance - £2866.
- m. Potential savings is **£355**.
Council Tax @ £1862 – AGR @ £1616 is £246.
£3627 x 3% is £109.
£246 plus £109 is £355.

Case Three: The following case illustrates an additional cost of **£4324** for a married couple with two school age children, earning a high income, and living in a high-cost 5 bedroom home located in Westhills in Aberdeenshire. The primary wage earner works full time and the spouse works part time.

- a) Primary wage earner on wage of **£97,000**.
- b) Spouse on part-time wage of **£10,421**.

- c) Allowances for two children: **£1788** (1st -£1076, 2nd -712).
- d) Primary wage earner Income Tax payable: **£28,918** on £88,188.
Primary earner - £97,000
Plus Child allowances - £1788
Less Personal allowance - £10,600.
£31,785 @ 20% = £6357 + £56,403 @ 40% = £22,561 totals £28,918.
- e) Primary wage earner National Insurance payable: **£10,282.**
£97,000 @ 10.6% is £10,282.
- f) Spouse pays no Income Tax on £10,421.
- g) Spouse National Insurance payable: **£609.**
£10,421 @ 5.85% = £609
- h) Council Charge payable on Band H (over £212K) property is **£2282.**
- i) Water Charge of £386.28 and Sewerage Charge of £448.38 (**£834.00**).
- j) Size of plot for 5-bedroom property is **1/6 acre (675 sq. metres).**
- k) Value of Property is **£445,000.**
House: Cost to build -£178,000 (40%)
Profit Margin: £89,000 (20%).
*Ground price for 1/6 acre (675 sq. metres): **£178,000** (40%).*
- m) Annual Ground Rent (AGR) for plot is **£7560.**
Ground Valuation of £178,000 divided by 675 = £264 per m2.
AGR rate for Ground Valuation of £264 per m2 is £11.20 per m2 (see table).
AGR payable is 675 multiplied by £11.20 per m2 = £7560.
- n) Main Earner current outgoings are **£42,316.**
Council Tax - £2282.
Water and Sewage charges - £834.
Income Tax - £28,918.
National Insurance - £10,282.
- p) AGR replaces Council Tax and PAYE is reduced by 3 pence in the pound:
 Adjusted main earner outgoings are **£46,640.**
Annual Ground Rent (AGR) - £7560.
Water and Sewage charges - £834.
Income Tax - £27,964. (£31,785 @17% + £56,403 @ 40%)
National Insurance - £10,282.
- q) Adjusted Outgoings **results in £4324 more towards public services.**
AGR @ £7560 versus Council Tax @ £2282 = plus £5278
Less £31,785 x 3% is £954.
£5278 minus £954 is £4324.

Robert Ingram
Community Councilor, 28-02-16
Contact: info@scottishconstitution.scot