



**Innovative Financing for Transport
Schemes:
A European reference resource**

**Briefing Paper 2
Property / Land Value Capture -
Stamp Tax
September 2015**



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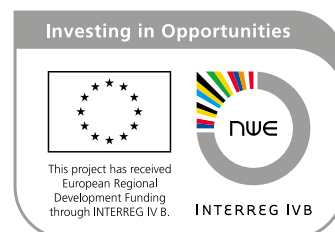
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Sustainable transport for North-West Europe's periphery

Sintropher is a five-year €23m transnational cooperation project with the aim of enhancing local and regional transport provision to, from and within five peripheral regions in North-West Europe.

INTERREG IVB



INTERREG IVB North-West Europe is a financial instrument of the European Union's Cohesion Policy. It funds projects which support transnational cooperation.



Working in association with the POLIS European transport network, who are kindly hosting these briefing papers on their website.



Report produced by University College London

Lead Partner of Sintropher project



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Background

This briefing paper is one of a series that together comprise a European reference resource for innovative approaches to financing transport schemes (capital costs) with particular reference to light rail and tram-based schemes in cities and regions. The approaches are also relevant to capital financing of transport schemes generally.

The resource is one of the Investments undertaken for the Sintropher project funded under the INTERREG IVB North West Europe Programme for transnational co-operation. The overall aim of Sintropher project is to develop sustainable, cost-effective solutions to improve connectivity to, from and within poorly connected regions in North-West Europe - to use innovative transport links to connect peripheral regions of NWE with the core European transport network of high-speed trains, via effective interchange hubs.

There has been a particular focus on tram-train systems which allow local trams to run on to national rail networks, pioneered in Germany, firstly in Karlsruhe and developed in Kassel, which allow urban tram systems to extend over national rail tracks to serve extensive city regions. The project has also looked at other innovative forms of tram systems such as single-track tramways, as well as high-quality transport interchanges that link such systems to major national or transnational rail or air hubs.

The project began in late 2009, with fourteen partner agencies in five EU Member States, and lead partner University College London (UCL): Valenciennes (France); the Fylde Coast (UK); West Flanders (Belgium); North Hesse (Germany); and Arnhem-Nijmegen (Netherlands). Participants included public transport operators, local authorities, regional transport agencies, and universities.

They have worked together on a series of feasibility evaluations, pilot investments and demonstration projects, as well as comparative analyses of EU best practice. The total budget is more than €23m, with funding part-financed by the EU's INTERREG IVB Programme.

A €1.5m project extension in 2014, covers follow-on work to capitalise on results from the initial project, and added a fifth objective: to test technologies for low cost transport links in different territorial contexts, plus integrated territorial corridor plans that help these links unlock wider economic and regeneration benefits; and better recognise these in business cases. This included two new partners (total now 16) and two extra demonstration regions (total now 7) in West Flanders Brugge-Zeebrugge (Belgium) and Saar-Moselle (a cross-border region France-Germany).

Innovative financing for transport schemes - increasingly important

Results in the European demonstration regions, plus topics at Sintropher Conferences and Workshops indicate that new tram-based or tram-train proposals are usually technically feasible and can often offer a reasonably positive investment case - especially if the case goes wider than conventional cost-benefit analysis (CBA) to include realisation of territorial objectives and benefits, such as economic growth and social opportunities.

But implementation can be impeded by lack of available funding due to cuts in public expenditure following the European economic crisis of 2008 and subsequent recovery efforts by national governments. Regions that are weaker in population or economic terms have even more difficulty in justifying an investment case in terms of public expenditure, so innovative financing is of growing importance - and much can be learned from approaches in different European countries.

Stamp Duty Land Tax (SDLT)/ Transit Benefit District Tax

Public investments, such as building transportation or sewer facilities, can increase adjacent land values, generating an unearned profit for private landowners. The unearned value (increases in land value which otherwise benefit private landowners cost-free) may be "captured" directly by converting them into public revenue through various mechanisms. Thus, value capture internalizes the positive externalities of public investments, allowing public agencies to tax the direct beneficiaries of their investments. One such method of capturing this value uplift is through Stamp Duty Land Tax (SDLT).

Any property or land is subject to SDLT over a certain price. SDLT is projected as an excellent source of funding for transport infrastructure projects due to the role that transport projects play in land value uplift. As transport projects add value to surrounding land parcels, SDLT allows the government to pull funds from the capital that is unearned and being capitalized on by property owners.

Financial Mechanism

A special property tax imposed in areas with high quality public transit, intended to recover a portion of the increased land values provided by transit and to help finance the service improvements.

Currently, the threshold is £125,000 for residential properties and £150,000 for non-residential land and properties: it applies to freehold and leasehold properties, as well as shared ownership and transferred land. An individual must pay SDLT to HM Revenue and Customs (HMRC) within 30 days of completion of the property deal, and will incur penalties if not paid on time.

Property or lease premium or transfer value	SDLT rate
Up to £125,000	Zero
The next £125,000 (the portion from £125,001 to £250,000)	2%
The next £675,000 (the portion from £250,001 to £925,000)	5%
The next £575,000 (the portion from £925,001 to £1.5 million)	10%
The remaining amount (the portion above £1.5 million)	12%

The rates of SDLT on freehold properties increase as value thresholds are crossed (see diagram). Different rates apply to the following:

- Corporate bodies
- People buying 6 or more residential properties in one transaction
- Shared ownership properties
- Multiple purchases or transfers between the same buyer and seller (also known as 'linked purchases')

Businesses undergo a similar SDLT, albeit with different thresholds and percentages.

Once calculated, a set percentage of the SDLT will be proportioned towards funding the transport scheme that is within the set catchment area, in order to re-distribute the land value uplift towards transport financing.

Attractiveness

- Source of new additional revenue for transport funding
- Increased land value uplift in transport-rich areas
- Easily monitored and regulated
- Regulates equality by taxing those who have financially benefitted by public infrastructure locations

Risks

- Places financial burden on a small cohort (property owners within a particular distance from new transport/stations)
- However, this cohort is generally experiencing a property value increase anyways, so it tends to balance out

Track Record

Land value capture in the form of transit benefit districts is used in some U.S. cities including

Miami, Florida; Los Angeles, California; and Denver, Colorado. Worldwide, Hong Kong has used it with success. However, SDLT for the purpose of funding transport initiatives has not been attempted in cities as of yet. London is the first city to specifically use SDLT to fund a major infrastructure project, funding the Crossrail underground line with a combination including stamp duty.

Stamp Duty Land Tax Case Study: Crossrail



Financial Specifications

Amount(s)

Predictions estimate land value increases up to 40% around stations

Targeted Groups

Property buyers around Crossrail and connected transit nodes

Timeline

Imposed for a duration of up to 31 years

Line/Project	Status	Costs	Alternative Finances Used In Tandem	Timeline
Crossrail	Under construction	£15.9 bn	Yes – government funding	Completion due 2018/2019

Why the mechanism could be chosen in Vancouver

- Expected large increases in property values surrounding Crossrail stations
- Note that this is only a partial means of funding the project

Financial Specifications of Case Study

SDLT will be used to contribute funds to Crossrail, in order to capitalize on vast property gains surrounding the new underground line, and to help secure the project against any national budget cuts. The levy will be implemented across all 33 boroughs of London, which are expected to experience some level of increase in connectivity due to the new transport link.

A yearly SDLT from businesses will help to fund £4.1 billion of the Crossrail project. The value threshold of businesses eligible under SDLT currently sits at £55,000. Furthermore, residential properties are expected to generate over £14.7 billion in land value increase and thus a large increase in SDLT income (see diagram). This influx of public capital goes directly to the UK Treasury and, thus, can be

	Additional property taxes from Crossrail-led incremental development (£million)	Additional property taxes from Crossrail-led higher values for baseline level of development (£million)
Residential – stamp duty on initial sale – one off	224	117
Residential – stamp duty on subsequent annual turnover – annual	11	6
Residential – council tax – annual	19	N/A
Offices – stamp duty on initial sale – one off	81	22
Offices – stamp duty on subsequent annual turnover - annual	4	1
Offices – business rates – annual	45	N/A
Total NPV (6 per cent discount rate)	1,622	256

Table 6
Additional property tax revenues attributable to Crossrail 1

redistributed towards funding Crossrail and future major infrastructure projects such as Crossrail 2.

Benefits

- Captures land value uplift and the property gains of owners around stations and in high-desirability neighbourhoods
- Focuses on demographics that will be directly benefiting from the public transport scheme

Drawbacks

- Potential discouragement for development around transit node
- Inequality of pricing, depending on tax structure and implementation

Assessment

Stamp Tax is a strong funding mechanism for large transport links within regions. As the transport links create a desire to relocate and an uplift in property prices because of higher demand, any additional taxes paid on the value of property will naturally increase. As such, the difference can be used to fund the transport project itself, or contribute additional public schemes that help amplify the transport link.

Success of Financial Mechanism

SDLT offers a mechanism that, depending on the location, can generate enormous amounts of funding for transport projects that have added value to land within the region. Smaller transport schemes may not offer as great a land value uplift; however, it is still possible to capture a smaller quantity to help finance public transport by using the same type of levy. For larger flagship projects, SDLT provides an opportunity to gain unearned capital, which tends to be better-received by land owners and the public. Thus, the mechanism is successful when targeting land value that is guaranteed to undergo significant increases. If targeting land that is not guaranteed to increase in value, this could cause backlash from property owners who would lose money on property investments.

Public Perception

The SDLT levied on Crossrail has been relatively well-received. Unearned capital means that the residential property owners do not lose hard-earned money, instead relinquishing capital that was earned passively. Thus, there is less of a negative feeling towards the increase in SDLT. As long as a public referendum is not required, the initial implementation of the scheme will undergo some criticism, but the long-term understanding of the wider impacts of the new transport link(s) tends to soften the lobby and is generally well-accepted.

Future Prospects and Transnational Relevance

- Stamp tax is not yet a tried and tested model for capturing land value uplift for the purpose of public transport
- Excellent within large transport schemes, across a variety of regions and areas
- Depends on both size of scheme and desirability in order to determine the potential gain

There have been a variety of international regions using land value capture in order to fund transport, but very few are geared specifically towards property taxes such as SDLT that support public transport. Crossrail offers a case study that demonstrates the value capture of a passive asset such as housing, successfully generating large amounts of funding in order to provide a major infrastructure investment to the city.

Transnational relevance: Europe-wide

Funding of major transport schemes is an issue faced by many cities and regions across the North West Europe Programme area and indeed more widely across Europe. Traditionally, in most countries tram-based links have been financed by public funding from national or regional government authorities, sourced from either taxation or borrowing or a combination. (In regimes where there is a national or regional transport infrastructure authority, operating profits may also assist).

But as with Sintropher partners, implementation of such schemes is facing a lack of available funding due to cuts in public expenditure following the European economic crisis of 2008 and subsequent efforts by national (or regional/city) governments, to recover. So innovative financing is of growing importance, and much can be learned from approaches in different European countries.

The financing approaches and city/region case examples on the reference resource are context-specific and reflect:

- the geographical context: the physical scale of the scheme and scale of capital cost. Obviously a major scheme with high capital cost of, say, €50m + may be beyond the resources of a single city or regional authority, and require a national contribution in a “cocktail” approach. The investment case will usually be stronger in a major dense metropolitan area than smaller regions with lower population and (possibly) lower or weaker economic activity.
- the organisational context: which level of government and/or relevant transport authority or agency is the primary initiator of the scheme - national, regional, or city - will influence the financing opportunities and options available.
- the legal context: the nature and extent of the powers and responsibilities of the initiating authority, and the processes/procedures, to actually pursue any of the financing approaches.
- But even though the various approaches and case examples are context-specific, their transnational relevance is strong:
- the approaches offer a stimulus and possibilities for wider thinking by cities and regions in other European countries, about how to assemble capital financing for transport schemes,
- in all countries, the reality of capital finance for transport infrastructure means that a “cocktail” approach is often the most practical way forward - and the approach of mixed public-private sector finance is an increasingly pragmatic basis
- some or all of the various approaches might be potentially adaptable within the particular organisational and governance regime of another country, using similar powers or processes
- the approaches offer possibilities for lobbying by city and regional authorities, in order to secure from national government the powers and competences to utilise new approaches (as has happened in the UK - for example local authorities have in recent years acquired powers to implement tax increment financing (TIF) although subject to safeguards over risk and borrowing; similarly, powers to enact a community infrastructure levy (CIL) on developments in their area, subject to local consultations and examination of viability and fairness for private developers.

The reference resource should be seen from this perspective, as a means to promote knowledge transfer and learning across different NWE countries and regions.

Further information

This paper was produced by UCL Bartlett School of Planning (Sintropher team members Charles King, Giacomo Vecia, Imogen Thompson) using desk research and expert comment. The paper reflects the views of the authors and should not be taken to be the formal view of UCL or Sintropher project.

The European reference resource can be accessed on the following:

Sintropher project website

<http://www.sintropher.eu/publications>

POLIS website

<http://www.polisnetwork.eu/sintropher> or <http://www.polisnetwork.eu/res/resources>

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