LAND VALUE TAXATION CAMPAIGN

RESPONSE TO

NORTHERN IRELAND FINANCE MINISTER'S CONSULTATION ON PROPOSED CHANGES TO RATING OF COMMERCIAL PROPERTIES, 1ST. APRIL 2012 – 31ST. MARCH 2015

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October 2011

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List of abbreviations used in this Consultation Response

the Minister	the Finance Minister of the Northern Ireland Executive
the Campaign	the Land Value Taxation Campaign
LVT	land value taxation
UBR	the non-domestic rate/the uniform business rate/the rating of commercial properties (*i.e.* properties other than those classed as domestic or as agricultural)
the Review	the Northern Ireland Executive's Review of Domestic Rating Reform, 2007
the Response	the Campaign's Response to the Review (August 2007)
the Outcome	Outcome of the Executive's Review (December 2007)
the Overview	Land Value Taxation: An International Overview (2/11/07) [a University of Ulster document, included as Annex C in the Outcome]
the Rejoinder	the Campaign's Rejoinder to the Outcome and the Overview (March 2008)
the Consultation	the Minister's current (June 2011) Consultation on changes to the rating of commercial properties
the Consultation Response	the Campaign's present Response to the Consultation

PREFACE

P.1 A new domestic rating system was introduced in Northern Ireland in April 2007 under Direct Rule, based on the composite capital values of land + buildings and other improvements (*i.e.* on buying/selling prices).

P.2 The Executive conducted a Review. The Campaign submitted a Response. The Response, covering changes proposed for action in the longer term (as distinct from modifications to the new system thought suitable for implementation in April 2008), consisted of the following sections and appendices:-

1	The new domestic rating system
2	Options for reform
3	Advantages of land value taxation (a property tax on site value only)
4	Practicability of site value assessment
5	Implementation
6	Proposed legislation
7	Further implications of a change to site value assessment
8	Funding of water and sewerage services
9	Conformity with the Executive's model criteria for local taxation systems
10	Conclusions

Appendix A	Definition of land value taxation
Appendix B	Definition of site value
Appendix C	"What Is Land Value Taxation?"
Appendix D	Ability to pay or the benefit principle?
Appendix E	Capital value or annual rental value?
Appendix F	Asset rich/cash poor
Appendix G	Contaminated brownfield sites
Appendix H	"Overcoming The Odds"

P.3 The Overview was commissioned by the Executive from the U of U "to carry out research into…land value taxation" (Outcome, paragraph 7). The Executive then published its Outcome document, which dealt with LVT in three paragraphs, numbers 109, 110, and 111. The Campaign respectfully submitted a Rejoinder (March 2008), consisting of the following sections and appendices:-

P.4 The Campaign considers that, *mutatis mutandis*, the general case for LVT as presented in the domestic rating context in the Response (August 2007) and in the Rejoinder (March 2008), is valid in the present UBR context too. Given also that the Minister's proposed changes to the UBR are not fundamental and that in any case the modifications are of a temporary nature, the Campaign is not herein submitting detailed arguments for the adoption of LVT in place of the UBR. The Campaign would nevertheless be pleased to see such an outcome and would hope to make the supporting case, in writing or orally, were the inquiry to be widened now or in the future.

P.5 The Campaign is a non-party/all-party organisation whose aim is to secure legislation for the replacement of existing taxes on wages, goods, and services by a property tax on the rental value of all land. The Campaign uses the word, land, in its classical meaning in political economy (the whole of the material universe apart from man and his products), thus distinguishing it from its meaning at law and also from its treatment by accountants/ book-keepers.

The key proposition advanced by the Campaign is that public revenue be raised by the method known historically as LVT. The Campaign distinguishes the returns to labour and capital, which it regards as private values, from those to land, which it contends are public values and thus peculiarly suited to provide the basis of public revenue.

1. RATING OF COMMERCIAL PROPERTIES:

SMALL BUSINESSES, LARGE RETAIL PROPERTIES, EMPTY SHOPS

1.1 The main motive behind the modifications proposed to the operation of the UBR for the three years in question (1st. April 2012 to 31st. March 2015) is to aid recovery from the continuing economic downturn. The main purpose of the specific changes is stated to be to rebalance the business rates system so that during this downturn, and through to recovery, more smaller businesses get help while the very largest retailers pay more. Expansion of the small business rate relief scheme would be funded through applying a levy to the largest/highest value retail properties.

1.2 The Consultation document sets out the Minister's preferred approach, and includes the following:–

1.2.1 General expansion of the small business rate relief scheme. 20% relief would be provided to eligible premises with an NAV of £5,001 - £10,000. No additional relief would be provided to those currently receiving small business rate relief (NAV of £5,000 or below).

1.2.2 An average levy on rate bills of around 20% to be applied to those retail premises with a rateable value of £500,000 or more, in the form of a regional rate supplement.

1.2.3 Allowing the use of shop fronts or shop window displays for (non-political) community, artistic, or other non-commercial purposes so that the full occupied rate is not charged on otherwise empty properties. Entitlement to 50% empty property relief (or exclusion if applicable) would be preserved.

1.2.4 These changes would apply for three years from 1 April 2012 until 31 March 2015.

1.2.5 A further change would be to clarify the legislation relating to the valuation assumptions used at non-domestic revaluation, by being more specific about the state and circumstances to be taken into account in compiling a new valuation list. This would take effect at the next general revaluation planned for 2015.

2. CONSULTATION RESPONSE ON RATING OF COMMERCIAL PROPERTIES:

SMALL BUSINESSES, LARGE RETAIL PROPERTIES, EMPTY SHOPS

2.1 Land (unlike goods and services) has no cost of production: it came with Planet Earth as a free gift. If an ample supply of land of equal desirability were available everywhere, there would be nothing to pay for its use. In reality land acquires a scarcity value owing to the competing needs of the community for living, working and leisure space. Thus land value owes nothing to individual effort and everything to the community at large. It belongs justly and uniquely to the community. Because of differences in positional advantages, fertility or natural resources, some locations are more desirable than others. Demand for access to these features gives land its rental value. Speculation in land value – frequently misrepresented and disguised as "property" or "asset" speculation – is the root cause of unsustainable booms which result periodically in damaging corrective slumps. LVT, fully and properly applied, knocks the speculative element out of land pricing to eliminate the boom/slump cycle.

2.2 Land values interact with contemporary taxes. Three illustrations are offered here in support of that contention.

2.2.1 A house hunter starts by working out how much he can afford to pay. He has the sales value of his present place plus what he can afford from his savings plus what he is likely to want (and get!) by borrowing. He deducts agent's and legal fees, allowances for moving costs, new curtains and carpets, and a healthy contingency allowance. He will assess changes in such costs as the new domestic rating system in Northern Ireland (or the council tax elsewhere in the U.K.), mortgage payments, insurance, and travel to work and to shops. From this he assesses the maximum affordable purchase price for his new house plus of course the attendant SDLT (stamp duty). A businessman conducts much the same sort of exercise when selecting a location for his activity. His significant costs are likely to be wages and capital investment on site, plus transport of inward supplies and outward goods. On top of everything else, he must pay the payroll taxes (income tax plus National Insurance) together with enough to enable his employees to take home a net living wage (*i.e.* covering their VAT, domestic rate, *etc.*) plus the fully built-up post-tax costs of his company's transport needs (including motor fuels). Sites in Northern Ireland, Scotland, and Wales are prone to be remote from the big markets in south-east England and at the continental heartland. To-day's taxes bear on production and cripple or kill marginal businesses. That is the stark truth. A switch to land-rent capture (LVT) is crucial – crucial. Land value is a surplus, representing the advantage a site enjoys in relation to the poorest land in use, and LVT would thus hit the remoter regions least.

2.2.2 Land prices take account of the liability to pay any recurring taxes that go with ownership, including, as appropriate, the UBR or the new Northern Ireland domestic rate (or the council tax elsewhere). Both now and later, when the time arrives to replace current taxes by LVT, the amounts payable under these property taxes must be added to the valuer's assessments of rental value (or, if, mistakenly, capital values are to be used, must be capitalised and added to the valuer's capital assessments). That the whole amount relieved is absorbed into land value is demonstrated by the following "Benign Alien" scenario. A traveller from Outer Space is so enamoured of Harrogate, Yorkshire, where he stayed for some delightful months, that he leaves a massive sum of money behind in trust to pay henceforward the council tax and UBR imposed on the town's citizens. Of course, everyone wants to live where there are, in effect, no local taxes, and the rush of incomers so pushes up rents and land prices that the benefit of tax-free existence is entirely eroded in location costs (land values). When, at last, the money from Outer Space runs out, the citizens face taxes on top of high rents and land prices, and many flee as soon as they can to where the burden is lower, until land values come back down again. All subsidies and tax privileges are eventually absorbed in land value.

2.2.3 In real life, when the old domestic rating system in Great Britain (a charge on land + buildings and other developments) was replaced by the community charge (a 'poll tax' on people, not a levy on property), it gave a presumably unintended and undesired boost to house prices which were already spiralling upwards in the speculative land boom of the later 1980s.

2.3 The Consultation document appears unaware of or unconcerned at the interplay between the UBR and land values. The Campaign, on the other hand, is convinced that relief given to small businesses will ultimately be absorbed in higher rentals demanded by landlords. Conversely, higher charges placed on the larger retail properties ought to result in landlords having to reduce their rental demands or risk putting some of their lessees and tenants out of business and thus denying themselves an income stream. Because land and property prices are "sticky downwards" it is likely that lessees and tenants will in the meantime decide to hold back from committing to redevelopments and other business investments in defence of their cash flows and bank deposits/bank borrowings. Thus at both the top and the bottom of the NAV ranges, the proposed changes to the UBR are sending out the wrong signals and on course to proving counter-productive.

2.3.1 Perhaps it is hoped that the three-year duration of the changes will be short enough for the intended advantage to be enjoyed by the small businesses whilst the larger retail properties will manage to cope with the discomfort to be foisted upon them.

2.3.2 It should be made resolutely clear from the outset that there is to be no extension of UBR relief/surcharge beyond 31st. March 2015. It would help powerfully if the proposed legislation were also to include provisions to abolish upwards-only rent reviews retrospectively.

2.3.3 LVT benefits small businesses, especially those in town centres which are generally asked for higher rents at reviews or on expiry of their leases. The lessee often cannot afford the new rent, and closes the business. Even if the landlord cannot immediately find a tenant willing to pay the revised rent, the UBR currently payable on vacant business premises is insufficient to provide an effective incentive to bring them promptly into use again. Businesses have thus been driven to extinction whilst the premises they previously occupied stand speculatively empty. With LVT, owners need to maintain the cash flow from which to pay the charge and cannot afford the risk of having their property vacant for long. To avoid this, they must set their property rents competitively. Far from killing off small businesses, LVT lifts the in-built bias against them.

2.3.4 Permitting the use of shop fronts or shop window displays for (non-political) community, artistic, or other non-commercial purposes so that the full occupied rate is not charged on otherwise empty properties, is presumably because there are already shops standing empty and an admission that the imposition of UBR has been at least partly responsible for this. The Campaign points out that LVT, were it in operation, would be far more effective.

2.3.5 The term, land, means the site alone. The value of buildings or any other works which people have erected or carried out on each plot of land would be ignored, but it would be assumed that all neighbouring properties were developed as at the time of the valuation. Other things being equal, a vacant site in a row of shops or a vacant shop situated in that same row, would be assessed at the same value as the adjacent sites occupied by functioning shops. LVT is payable regardless of whether or how well the land is actually used. It is a payment, based on current market value, for the exclusive occupation of a piece of land. In the longer term this fundamentally new and different approach to revenue raising will stimulate new business and new employment, reducing the need for costly government welfare. The necessity to pay the land-rent charge (LVT) obliges landowners to develop vacant and under-used land properly or to make way for others who will.

2.3.6 Valuation assumptions and methods have been alluded to, briefly, in the preceding text in this Consultation Response. Greater coverage is to be found in the Response document of August 2007, albeit in the context of domestic rating reform. Essentially the same points apply to replacement of the UBR by LVT. Section 3.3, section 4, section 5 (to 5.1.3), section 6, section 9, appendix D3, and appendix E3 (especially E3.3 and E5) in the Response, are thought to be of prime relevance.

3. CONCLUSIONS

3.1 Confession time has arrived. It is now the moment to declare that the Campaign has a kind of soft spot for the UBR, regarding it as the least bad of contemporary taxes. It is based on the value of property (not on people); it is assessed on annual rental values (not on the more erratic capital values); and it takes account of land value (as well, unfortunately, as of the value of buildings and other developments on the site). A major defect is that it ignores or downplays the value of sites left unused and of sites where the activity conducted thereon is currently exempt; and, in that it looks primarily at values in current use, it ignores or understates the potential higher value that lies within the land itself. For all its defects, the UBR has, even to-day, the power to do good, and it holds out the prospect of easy adaptation to straightforward LVT.

3.2 The Campaign appreciates the desire to assist small businesses, but considers that the modifications proposed by the Minister are not likely in practice significantly to tackle the problem (unless the beneficiary is the freeholder and not a lessee or tenant, in which case he benefits more as an owner of the land than as a user paying for the land + developments on it).

3.3 The Campaign prefers to see the UBR left as it is, but urges the Minister to look into the prospect of making provisions to abolish upwards-only rent reviews retrospectively (especially if the proposed changes to the UBR do go ahead in the period from 1st. April 2012 to 31st. March 2015).

3.4 The Campaign recommends replacement of the UBR by LVT. To this end, the 2015 revaluation will be conducted on the basis of the site value of the land only, and will be extended to land currently exempt. Once this is in operation, LVT can be extended to land in domestic use too, replacing the current domestic rating system.