

# PRACTICAL POLITICS

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## RESIDENTIAL STAMP DUTY

There is more to buying somewhere to live than just paying for the house and the ground it stands in. There are solicitor's fees, estate agent's fees, and removal expenses; and there is the residential stamp duty, "the levy on buying a home [which] is set to boost the public finances by £4.3bn in the current tax year" (Friederike Tiesenhausen Cave, "Financial Times", 29th. January). This tax was re-named stamp duty land tax (SDLT for short), less than a year ago, and the rates at which it is charged were heavily increased. It is not a tax on land as the general public understands the word, nor is it taxation of land value as economists know the term. It is in fact a single-hit (non-recurring) tax on a voluntary transaction between seller and buyer, and may best be considered as akin to payment of VAT.

It is a tax borne by the seller. The buyer can afford only so much for the entire purchase operation, and, if tax goes up, something else has to give. If the buyer could pay more, it must be supposed that the seller has not previously been asking for the highest price the market can stand. All in all, SDLT encourages stagnation in the housing market and discourages mobility. It is another bad tax, that will surely go when LVT is brought in.

## HEROISM DEVALUED

Twice recently the "Daily Telegraph" reported with seeming approbation the "local hero" status of a Kent landowner who has refused a £4.2 million offer from a builder for a field on which to erect 558 new homes (Stewart Payne, 20th. January, and Ian Cowie, 29th. January). The land is in the local plan for development. The owner, on his own admission, has no need of the money. If he does nothing until he dies, the land will probably go up in value, and will pass to his heirs, just as would the money if he had sold. So where is the heroism in all this? The owner might care to ask himself what he had done personally to make that land worth over £4 million. We all know that neither he nor any of his forebears created our planet. What he is sitting on and refusing to let others use, has a social, economic value deriving from the presence and activity of the community as a whole. The rewards of man's mental and physical efforts are justly private. The location value of land is public. Collect it through LVT (£200,000 a year rental, or thereabouts) and see whether this hero still refuses space for homes to those who enrich him.

## LITTLE BITS

**(i)** “If land was available around Oxford there would be huge growth” (agent, quoted by Daniel Cunningham, “Estates Gazette”, 29th. January). This can be true only if people want more land to work and live on – land value is a people value. Public bodies (people, again) may be able to assist by reallocating existing land to higher use. There is, though, no way of producing more land around Oxford, nor can land be moved to Oxford from elsewhere where it is near-worthless. Each site has a unique, monopoly position. Its value reflects its natural and social (and thus public) advantages.

**(ii)** “Development gain is not a one-off profit but a continuing income. Once the development has been completed, the increased annual rental value of the site goes on forever” (Geoffrey Lee, letter in “RICS Business”, February). “The answer is to introduce an annual site-value tax...ideally on all sites. After all it is government and local authority expenditure on services such as roads, schools, transport, hospitals, police, fire services and refuse collections that turns land that is worthless into valuable sites.”

**(iii)** “James Latham, the Hertfordshire-based timber importer and distribution company, saw its shares rise 8 per cent following the sale of a vacant site to [developer] Countryside Properties” (Gordon Hopkins, “Financial Times”, 11th. December). “The sale...reflects current planning permission and will produce, at the minimum value, a £15.7m profit.” Latham is to use part of the proceeds to pay a special dividend of 30p. Making money from land is easier than lugging timber about – like falling off a log, in fact.

**(iv)** Because of declining demand for industrial space and rising demand for homes, and because the UBR penalises non-domestic land and buildings more severely than the council tax hits dwellings, it is often more rewarding to refurbish old warehouses or industrial buildings as flats. This may be seen particularly clearly in contemporary Edinburgh, where the lack of good quality new industrial space is “exacerbated by the amount of industrial land being converted to residential” (Simon Jack, “Estates Gazette”, 25th. September). “Residential demand has pushed land values to the point where industrial development in Edinburgh itself is no longer viable.”

**(v)** “Why is a property lease not a lease? Because it is two leases. A lease of land and a lease of the building that stands on it. This, at least, is the view of the International Accounting Standards Board. Its accounting standard IAS 17 on leases insists that lessors and lessees should consider their leases as consisting of the two components: land and buildings elements” (Michael Brett, “Estates Gazette”, 4th. September). “Land normally has an infinite economic life”. There we have it, clear as can be.

## **JAPAN: PROGRESS, OF SORTS**

For well over a decade, Japan has agonised in deep recession. We have followed the story since Issue No. 8 (March 1990). The problem dates from the late 1980s and is one of frenzied over-borrowing and over-lending against the illusory collateral of ridiculously spiralling land values. When the bubble of land speculation finally burst, recession set in, banks tottered, big industrial and construction projects failed, hundreds of medium and small companies were ruined, unemployment spread, and the social fabric of the nation ripped apart. Japan has been the worst case, but the analysis of the cycle of boom and slump described in our Issue No. 29 applies world-wide.

We saw banks propped up from public funds as billions of yen in bad loans were written-off. We noted interventions by the Bank of Japan on a huge scale, as the domestic money market was flooded with funds in a series of acts of intentional currency inflation – that cruel quasi-tax that devalues every yen previously in circulation. Much more significantly for economic recovery, we recorded that land rents and prices were falling, and that in Japan's six largest cities commercial land prices had plummeted to levels last seen as far back as 1978. Now the Kleinwort Benson Private Bank Quarterly Market Review as at 31st. December 2004, tells us that “the long troubled bank and property sectors have seen the worst of their problems and....seem to be on a steady recovery path...The average urban land price for Tokyo's twenty-three metropolitan wards rose 0.4% between March and September, the first semi-annual increase in 14 years.”

As we mused in Issue No. 128, all this does is “put Japan back where it was, none the wiser as to what actually brought about its decade and more of misfortune, and therefore unprepared for when it all comes round again.” Having land value going back up, benefits nobody but the monopolists of valuable space. What Japan really needs is a national *ad valorem* duty upon the rental value of all land, with concomitant remission of current taxes. That would be the real stimulus and, if fully implemented, the real solution.

## **BELLSHILL'S SECRET**

Bellshill, Lanarkshire, a former mining town, “clocked up the highest house price rises in Britain this year,” averaging 70% (Stephen Deal, [London] “Metro”, 29th. December). A mortgage lender reveals, “It is an easy commute from Glasgow and 300 new jobs will be created at a business park”. Expensive bricks did not cause the rising house prices. Dear housing does not raise construction workers' wages. No, the gains feed through to the location value of housing land, ready for the landowners to snaffle.

## LANDHOLDERS IN SKYE AND LOCHALSH GET THEIR PORK BARREL

In Issues Nos. 19, 25, 55, and 110, both before and after its opening, we have commented on the new toll bridge replacing the old ferry service linking Skye to the mainland. Now the Scottish Parliament has scrapped the tolls, “paying £27 million to buy out the private company responsible for the bridge” (Tom Peterkin, “Daily Telegraph”, 22nd. December). We are delighted for the people of Skye, and for businessmen, farmers, and tourists, who now enjoy free passage for their vehicles and themselves over the bridge. What, though, has come over the vaunted land reformers in Edinburgh? They must know that land rents and prices, disguised as ‘property values’, will soak up the taxpayers’ generosity. Only by enacting LVT will MSPs bring justice to all.

## A RAMP, TWO TAX TIPS, and just a wee snag about land

“Did you know that residential land value across the UK has increased by up to 1053% over the past 20 years!” (advertisement come-on, “Daily Telegraph”, 7th. February). Readers may care to note the “up to” and the “!” instead of a “?”, before rushing after the invitation to make an “investment”; but we must all admit that the advertiser does have a point there somewhere.

“Interested in avoiding inheritance tax? Invest in farmland and secure agricultural property relief” (advertisement, “Estates Gazette”, 29th. January). The seller wants £3,000 per acre for 288 acres in Lincolnshire – a price swollen, you may be sure, to include entry to play that IHT avoidance game.

“How about buying a forest? There are tax advantages to buying woodland. Income from commercially-managed forests is exempt from income tax, and CGT [capital gains tax] is paid only on profit from the sale of the bare land. If the asset is owned for more than two years, the value of the forest will qualify for 100 per cent business property relief from IHT” (Sarah Ross, “Financial Times”, 22nd. January). We looked at tax and forestry in our Issue No. 98. We finish, now as then, by noting that “present treatment for tax purposes of the business of forestry and timber accepts both the principle and the practice of the taxation of land value, albeit under the blemished, indeed unsatisfactory, guise of a form of c.g.t. It is a significant precedent.”

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