PRACTICAL POLITICS

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Last month’s Budget presentation recapitulated the already well-trailed, and dropped hints of the next round of wheezes (as yet hazily formulated). A gatling of bullet points failed to conceal the intellectual barrenness of the occasion.

The most interesting aspect is the emphasis placed on anti-avoidance measures. Avoidance is legal (though evasion is not). Tax laws are increasingly complex, a headache for draftsman and victim alike. The more burdensome the tax, the more it is worth paying good money to avoid; and those who can afford to pay expensive accountants and lawyers, do so. It is odd that the Chancellor ignores that in 1931 his party put through a Finance Act which provided in Part III for a Land Value Tax (suspended after the ’31 Election, and then, with the Depression cited as the excuse, repealed unimplemented). Such a revenue raiser is based on immovable property – land – and is thus unavoidable. It progressively replaces present taxes on production, trade, savings, and spending. The charge is an annual site rent, dependent on the unique locational value of the land. It is payment for natural and social benefits actually received, and it is left to individual land users thereafter to make any lawful use of it they like.

Despite the consistent failure of a series of development land taxes (none of them annual charges on the rental value of land, be it stressed), Labour seems intent on reinventing the square wheel. The latest is being referred to as a planning gain supplement, to become payable, it seems, on the appreciation in land value when planning permission is granted: with no details, even in outline, yet available, one supposes it will again be an attempt to claw back some of the resultant enhancement in price. It will apply to housing land, and maybe also to commercial land (but we have not been told this). It will be a single hit, dependent on a purely voluntary act, an application for planning approval. Enhancement of land value attributable to any other cause (new infrastructure, better local services, rising economic activity, demographic change) is for this purpose ignored.

A planning gain supplement (or whatever) is, by definition, irrelevant at the margins. At the other extreme, landowners with highly valuable land who foresee big tax demands can sit back, not go for planning consent, and simply withhold their land from the market until there is a régime prepared to drop the measure. The tax hit can raise money for the chancellor only where it leaves really big money in private hands – in other words only if largely ineffective. Meanwhile, reduced supply of land in what is already a monopoly market, raises prices of all such land as does remain available, which in turn inhibits the very development the government purports to want. Why do our masters persist in such folly?

Against the background of the Budget lies a number of other issues affecting land.

(i) The government has been examining whether and how to allow the setting up of a new form of investment vehicle for ownership of property on lines not dissimilar to the way the public can now buy into funds based on equities and bonds. This property investment fund (“PIF”) will enable investors to contribute to pooled ownership of properties and receive the same tax treatment as direct investors. Presumably investors will enjoy property rent revenues and capital appreciation, but participation by the funds in property development remains an open question.

We have a counter-proposal. Property consists of two utterly disparate elements – the land itself (a gift of Nature, not man-made) and the buildings and other developments that are man-made. The first essential is to assess and collect the rental value of land, devote the revenue to fund the requirements of the public exchequer, and relieve the burden of existing taxes. Tax treatment of PIFs is thereby subsumed in this holistic approach. Why tinker when you can solve? Fund managers can then offer the investment products they want to, tax-free – and all of the money will go into the work of man’s mental and physical exertion, as constructor and manager.

(ii) It remains possible “to sell a valuable property, put the proceeds into a farm with vacant possession, work it for two years, perhaps by contracting it out, and say goodbye to any inheritance tax liability on your investment” (Pauline Skypala, “Financial Times”, 27th. March). A farm of course is land plus buildings, livestock, crops, and machinery. Why the Chancellor does not close part of this loophole – untaxed profits from landholding – is beyond understanding. We should tackle it not through IHT, though, but by LVT – and we have no intention of perpetuating taxes on farm labour and capital.

(iii) “Local farmer Christopher Williams is looking to cash in on the 43-acre East Hill Farm site in Fradley, near Coventry…near the A38… [for] industrial and distribution space” (“Estates Gazette”, 27th. March). “Land values in the area are around £300,000 per acre.” The value as farm land will not exceed £3,000, and could be half that. Phew! Owning land beats working for a living!

(iv) “My Lords, perhaps I may return to the Question, which is about increased land values following particular developments. Is not the answer that the Government ought, as a matter of urgency, to be revisiting the introduction of land value taxation?…Is it not the case that land value taxation would be a much better and fairer way of financing local government than the council tax and it would also, in many ways, allow a reduction in other taxes, such as income tax?” (Lord Greaves, Liberal Democrat, House of Lords, 25th. February).

THE CIVIL SERVICE

“Peace could cause problems: in its efforts to pacify Northern Ireland, the government has pumped billions into the province. If the public purse strings are tightened and Northern Ireland’s vast civil service structure is scaled down – 60 per cent of the population is in some way dependent on public funds for income – then the property market could suffer” (Kieran Cooke, “Financial Times”, 13th. June 1998, cited in our Issue No. 80).

In many ways landholders will have benefited from the effects of the improved situation. “The Secretary of State for Northern Ireland has been instructed to push ahead with plans to transfer all its ownership and lease liabilities to a private-sector partner as part of Chancellor Gordon Brown’s drive to raise more cash from public-sector land and property assets” (Julia Cahill, “Estates Gazette”, 27th. March). The estate of the Northern Ireland Civil Service is said to be worth £260 million. It is “scattered across Stormont, central and greater Belfast and the regions…and houses 18,727 civil servants.” The Secretary of State is said to be considering “a piecemeal sale of smaller packages of property.” In the absence of ubiquitous formal LVT, we should prefer to see the buildings sold (or let on a long lease) with the land retained in public hands and let on the basis of current market values.

NEGLECT AND DECAY

(i) “Cliveden is one of the National Trust’s most inspiring properties. The spectacular 376 acre estate overlooks the River Thames” (Cliveden Hospital Site redevelopment newsletter, early 2004). For nearly 90 years, a hospital has indeed stood on a site of 15 acres within the estate, but since 1986 “the site has been unused and has become derelict and the buildings are dilapidated and beyond their useful life.” A planning application has been submitted to put 191 new homes on the land. The old hospital site will still be owned by the National Trust. Whilst nodding approvingly at this initiative, we do find ourselves querying why it has taken 18 years in the gestation. Could it be that there has been no “carrying cost” on the rotting property? There is irony that a decrepit hospital should come to symbolise a putrid fiscal policy.

(ii) For years, old cinemas have been closing, have been refurbished, and have re-opened as something entirely different. This is part of the scheme of things, with adaptation to changing public tastes and demands. What rightly dismays the enthusiasts of the Cinema Theatres Association is closure of a cinema with the site remaining empty for years and years. Their bi-monthly Bulletin is full of examples – the Pentridge in Burnley empty for 8 years, the Scala at Helensborough for 20 years, the Kingsway in Cathcart, Glasgow, for 18 years, the Cannon in Shanklin, Isle of Wight, for 16 years. A stiff dose of LVT is needed to ensure land is not withheld but brought in to productive use.

DREAMING SPIRES

"It has the position, the parks and the prestige. You certainly pay for the privilege of living in Oxford" (Mark Hughes-Morgan, "Mail On Sunday", 28th. March). "In the most desirable areas to the north of town…prime three or four-storey detached houses near the best schools touch seven figures." It is location that makes the difference. Oh, yes, and there is more than one way of buying privileged education: you do not have to pay private school fees – you can buy a house on an expensive plot and pay off a big mortgage instead!

SPANISH PRACTICE

"It is one of those nudge, nudge, wink, wink stories of European football" ("Sunday Express", 7th. March). "European Union regulators are investigating a property deal that enabled Real Madrid to wipe out an estimated £135 million debt and assemble a squad of superstars" ("Daily Telegraph", 4th. March). "Madrid's local council bought a training ground from Real in 2001 after first reclassifying the site as prime building land…EU spokesman Tilman Lueder said: 'We believe there may be certain state aid elements attached to this.'" If EU rules have been violated, some or all of the cash may have to be repaid. Cue bad puns about Real estate.

FRENCH PRACTICE

If we have been thinking how delightfully, commendably quaint it is that the French nation remains attached to its little local baker's shop and the family-run delicatessen, we now have cause to think again. The absence of chain stores from the high street may not stem entirely from the free choice of the citizenry. It is all to do with the structure of French leases. These are for nine years and tenants have automatic right to renewal. "Rents can only be raised in line with the government's index" (Jon Neale, "Estates Gazette", 6th. March), though greater hikes are allowable if it can be shown that the 'commercial environment' has changed, "for example, if a metro station has opened nearby". Tut! tut! It would never do to deprive a landowner of a totally unearned increment in land value! But we digress – *revenons à nos moutons*! "The country's lease system allows tenants to stay in the same shop for decades without significant rent increases". So now we know. Tenants become beneficial landowners, pocketing the rising land value. The state allows leaseholders and freeholders to share the economic rent of land, so that the shopkeeper can, if needs be, subsidise an otherwise loss-making business from pure site value. The public is deprived of choice <u>and</u> has to go on paying its taxes.

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