PRACTICAL POLITICS

March 2003 Issue No. 121

ENERGY

Q. What is worse than having no energy policy? A. Having a series of ill-considered, often contradictory, ones.

In last year's budget, corporation tax on North Sea profits was raised from 30% to 40%. BP has recently divested itself of a number of oil and gas production ventures (including the Forties field), selling to smaller companies able to offset costs against investment allowances. Shell has warned that the tax increase has "knocked out a powerful reason for staying in the North Sea – political stability" (City Comment, "Daily Telegraph", 18th. March) and has announced cuts in staff, thereby "offloading its tax burden on to the local benefits office".

Coal continues to contract. UK Coal (formerly RJB Mining) is expected to announce losses of at least £50 million last year. "The shutdown of the four mines at Selby, in North Yorkshire, next spring and the closure of Clipston colliery in Nottinghamshire next month will leave UK Coal with just eight deep mines" (Christine Buckley, "Times", 6th. March). What it does have, though, is "50,000 acres of land and 2,000 properties". The company will "boost its property interests with a new valuation of the business". Ah!

Nuclear power, like petroleum and, to some extent, coal, has a high ratio of capital investment in plant and machinery to land value, and is thus saddled with huge sums to pay in business rates. It is also illogically lumbered with the climate change levy (see Issue No. 117). All of these industries would benefit significantly from a shift of taxes on to land values. They could then afford more research and more investment in "cleaner" operation, and, in the case of hydrocarbon fuels, in the recovery and means of processing of additional reserves.

Wind and wave generators, photovoltaic cells, heat pumps, and the like, do all have a part to play, but neither now nor in the long-term future do they afford prospects of a decisive contribution. Mostly they provide only auxiliary electrical power. The base load, hydroelectric schemes apart, will continue to be provided by hydrocarbons and, unless killed off, nuclear fuels. Wind farms, noisy and unsightly, proliferate only because of a 3p per unit subsidy hidden in electricity prices.

Whether this brief analysis offends predispositions or reinforces ancient prejudices, two facts are clear. Fuel sources are natural resources, and their development and exploitation are crucially affected by tax policy.

HOW MUCH HAVE YOU GOT? WHERE IS IT? HAND IT OVER!

The Liberal Democrats, it seems, are on an income tax rampage. At the party's spring conference, its economic spokesman urged upon members "plans to raise the top rate of income tax to 50p and use the money to fund free university education and to reduce council tax [as] 'our first step towards replacing the council tax altogether with a…local income tax'" (Krishna Guha, "Financial Times", 15th. March). This appears to mean that the council tax will be replaced partly by an increase in the total take from national income tax and partly by a new local income tax. Tax payers will thus pay income tax to the Inland Revenue plus National Insurance plus local income tax.

The council tax is based on the selling price of residential property at the time of the 1991 valuation. There are eight valuation bands, from A (up to £40,000) to H (above £320,000). Local authorities use a formula whereby the amount charged to those falling in to each of the other bands is prescribed in relation to the reference band, D. There are some provisions for discounts, and certain welfare recipients have the council tax paid for them. The Government has announced a revaluation, but the new base will not become effective until after the next general election.

The tax does indeed have serious disadvantages (as we have stressed in a number of past Issues and in other Land Value Taxation Campaign publications); but its administration is relatively easy, and, because it is linked to fixed property, payment is difficult to avoid or evade. In that part (often an important part) of the value of residential property consists of the site on which the dwelling sits, the council tax does at least capture some land value for the public revenue. To replace it by income tax would be to make a gift to owners of land in use for, or allocated to, domestic purposes. Is it to be party policy to beggar the wage earner and the lifetime saver so that the landowner may prosper? In the lifetime of many of us, the old Liberal Party was arguing for tax policy to move in the opposite direction, off buildings and other improvements and on to site value only.

A local income tax is not without practical problems. (i) It would presumably be based on current tax returns to the Inland Revenue. Not everybody makes these, including resident non-domiciles (such as footloose wealthy foreigners who at present do contribute to running the country via their payments for the property they occupy). (ii) The self-employed whose turnover is too small to justify corporate status, do not pay corporation tax on their business profits, but income tax. As individuals, they will be put at a disadvantage in competing against companies. (iii) It will be necessary to define a person's place of residence for the purposes of local income tax (not as easy as it may seem) and to keep trace of people frequently on the move.

(iv) Apart from the question of income tax deducted direct from savings, income tax is often deducted by employers through pay-as-you-earn. Provision will have to be made to identify the appropriate income tax rate for each employee according to place of residence, and to ensure remittance to the local authority concerned. Some employers may be based abroad or may administer their pay-rolls abroad. (v) Patently a local income tax is complex to administer, and therefore costly in relation to the sums involved. (vi) An increased overall "take" in the form of income tax, adds to the incentive to avoidance and evasion. (vii) The decline of regular full-time employment, the arrival of self-assessment, and the introduction of welfare benefits in the form of credits administered through the pay roll, are already putting additional strains on the income tax system. (viii) A local income tax cannot be integrated with the national non-domestic rate (the uniform business rate), whereas a duty based on land value alone can be applied to all user classes. Maintaining two systems is far more clumsy and costly than a single one.

A local income tax is only a graduated community charge – and remember the trouble that caused! Despite a superficial appeal to fairness, a local income tax is not a sensible policy. A household of four taxpayers is not going to accept with equanimity being next door to an otherwise identical household of one taxpayer and three non-taxpayers. The cost to local government of servicing a property scarcely varies with the number of adults in a house, be it zero or half a dozen. Police, fire, street lighting and street cleaning are the most obvious examples. Garbage collection and disposal costs are but trivially affected by the amount of rubbish actually in a dustbin. A household of people out at work all day will use parks, libraries, and other leisure facilities, much less than the non-taxpaying casually employed. Taxing two parents and two children who all go out to work is simply going to give them an incentive to consider "investing" in a second home (which will not put up their overall local tax bill, but will add to the demand for housing).

The correct basis for a nation's public revenue is the rental value of its land, defined as the material world apart from man and his products. The land and its resources are a gift of God or Nature. To each site, the market assigns a value, according to the attractiveness it offers as space for living, working, or leisure. Whoever wants exclusive use of the amenities offered by any piece of land may have them, in return for compensating everyone else by handing over to the exchequer the appropriate national land-rent charge. The income so derived abates and progressively replaces existing taxes.

Land values are public values. It is the duty of Government to capture them for public revenue. In this regard, the only question facing politicians of all parties, we suggest, is how best to progress from where we are to where we ought to be. Transitional difficulties are solvable – so, define and solve!

NOTES AHEAD OF THE BUDGET

"In the U.K., government spending is rising at the very time that the consumer mini-boom is about to come unstuck. Despite pretending to have put or kept some components of public expenditure off the government's books of account, HMG is walking into greater and greater commitments – in the social services, health, education, policing, transport, defence. Constraints on the productive economy, imposed by the EU and from Westminster, are starting to be felt. Dwindling receipts and increasing outgoings can be juggled only for a year or two. Expenditure cuts prove hard to make. Higher interest rates make people think of horses, locks, and stable doors, and in any case they squeeze and inhibit the wealth creators. Tax increases are unpopular (especially with another Election in the offing). Thus the seductive solution of currency debasement beckons. This is called, politely, increased government borrowing; but in fact it is inflation – meeting the bills by causing the requisite currency notes to be printed (at the cost in materials and labour of about 3p each)." *"Practical Politics", Issue No. 116 (July 2002)*.

"Companies have to attract cash from customers and capital from the markets fairly frictionlessly. Government is financed by distortionary taxation."

Rupert Darwall, "Daily Telegraph", 18th. November 2002.

"The Government could be understating its debt by up to £200 billion, according to new independent research…if all the contractual liabilities associated with the Government's public private partnerships were added to the debts the Government has underwritten…However, Capital Economics, run by Roger Bootle, an adviser to the Treasury Select Committee, says…after weighing the contingent liabilities by risk and treating only capital expenditure as debt, it arrives at a more modest £25 billion, rising to £40 billion in the next few years…to boost the UK's debt to GDP ratio significantly."

David Litterick, "Daily Telegraph", 28th. February.

"There is little sign of a savage squeeze in the money supply figures. Broad money is growing at about 7 per cent a year in the eurozone and at more than 6 per cent in the US and UK. Indeed, such is the size of the monetary and fiscal stimulus being applied to global economies that some are worrying about a resurgence of inflation."

Philip Coggan, "Financial Times", 8th. March.

"The government will have to issue gilts in industrial quantities, as the gap between its income and spending gapes ever wider. Borrowing money is easy today, but it will not always be so, and the markets will demand ever-higher prices [i.e. interest rates – Ed.]… Inflation is never dead as long as governments can print money".

City Comment, "Daily Telegraph", 11th. March.

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Published by the Land Value Taxation Campaign,
54, Woodway, Hutton, Brentwood, Essex, CM13 2JR,
and distributed free to selected members of both Houses of Parliament, of the European Parliament, of the Scottish Parliament, the National Assembly for Wales, and the Northern Ireland Assembly.

Internet http://www.landvaluetax.org.uk