
Practical Politics No.87

We reproduce here a past issue of our journal.

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SLIGHTLY RIGHT, BUT BADLY WRONG

The Budget decision to raise stamp duty by 0.5% to 3.5%, the third increase this government has made, "is expected to wipe £12bn-£15bn off commercial property values" (Richard Gerrard, "*Estates Gazette*", 13th. March). Property in this case consists of two elements: there is the plot of ground, and there are the building and the other developments made upon it. The stamp duty will be levied on the composite value of land plus improvements. Some small satisfaction is to be had from the knowledge that when existing commercial property changes hands, a little land value is recovered for the public. Where new building is involved, landowners may prefer not to reduce prices but instead to hold their sites off the market until prices rise further, whilst developers and their clients may well be induced to skimp on non-essentials to cut cost. Even as a dog's dinner it is unsatisfactory fare.

Stamp duty is not a systematic levy. It is occasional, very much hit-or-miss. To the extent it reduces company profit, it is partly offset by reduced corporation tax. The reductions in market value do affect balance sheets, but will only rarely involve outward cash flow. In its triviality in face of a major issue - the appropriation of public land value by private landholders - it is entirely at one with the rest of this government's fiscal and budgetary policies. After nearly two years in office there is no discernible strategy, no suggestion of principle.

LOCATION, LOCATION, LOCATION

A prime reason firms move to London "is the connections on offer to any major city in the world by direct flight almost every day . . . The availability of flights has a direct influence upon the UK's property market. Office rents reflect the attractions of London as a business destination" (John Gummer, M.P., "*Estates Gazette*", 27th. February). The hotel industry and residential letting profit from these transport links too. Why tax work whilst giving location values away?

THE TARTAN TAX TANGLE

In Issue No.73, we reported how the Scottish National Party had adopted a resolution at its annual conference in favour of the taxation of land values. To widespread acclaim a committee was established to examine implementation -

but eighteen months later, the stirring words have died away. The SNP leadership has shown it has learned nothing from Scottish landowners' shock at the mere thought of LVT (as revealed at the recent inquiry by the Scottish Office Land Reform Policy Group), and all it can offer its electorate is to keep Scottish income tax 1p in the £ above the rate in the rest of the U.K.

This proposal has brought "a torrent of criticism from business leaders . . . 248,000 unincorporated small businesses - either sole traders or partnerships. comprising three quarters of Scotland's businesses - would pay the extra penny because they pay income tax rather than corporation tax" (Brian Groom and James Buxton, "*Financial Times*", 16th March). John Swinney, SNP Treasury spokesman. is therefore "working urgently on a £50m plan to cut business rates for small companies . . . [to] negate the effect of the 1 p on tax". This will make a dent in the £230m a year the 1 p is supposed to raise, and doubtless administration of the two schemes will take a good chunk more. Not much will remain to benefit health, housing, and education.

Mention of housing reminds us that in Issue No.75 we referred to the boom in prime property values following the decision to locate the new Scottish parliament in Edinburgh. We now have evidence that the housing land market continues to boom. House prices in the capital rose by up to 30 per cent in 1998. "The strongest push for higher prices comes from the impending Scottish parliament" (Gerald Cadogan, "*Financial Times*", 13th, March). "Plenty of consultants, lobbyists, spin-doctors, mandarins and secretaries will need to buy or rent at all levels of the market." Thus does a conscious, political decision tip money in to the purses of Edinburgh landowners. The answer to Mr. Swinney's problems lies under his feet.

MIAMI ROCK

Michael Baumann paid \$8 million for a site in downtown Miami, intending it for an office block. However, the site has "a unique carved stone circle . . . dating from between 1200 and 1400 AD." on it ("*New Scientist*", 27th. February) and the Miami-Dade County Commission has decided to buy it and preserve it. "Baumann wants \$28 million".

RIGHT TO ROAM

The Government has decided to provide a statutory right of access for ramblers to some 4 million acres "of mountain, moor, down and common land in England and Wales" (Charles Clover and George Jones "*Daily Telegraph*", 9th. March). Developed land, agricultural land, and land used for extensive grazing will be excluded. Cliffs, the foreshore, and woodland will be subject to further study. "There will be provision for land to be closed for safety reasons, defence, or to protect wildlife. Landowners will be allowed to close land, too, for up to 28 days a year. The Government has ruled out compensation".

Land values will reflect these changes. Where security of exclusive enjoyment remains, land will (unless it is economically sub-marginal) be worth more than where rights of way already exist, or where new access rights are to be created. With LVT in operation, owners of land with less than fully exclusive rights will find themselves asked to pay less than those with exclusivity. That seems to be fair to the public, which recovers its land values; fair to those landowners who also provide labour and capital, which will now be relieved of tax; and fair between landowners with exclusive rights and those obliged to concede access.

FOOTLOOSE IN LONDON AND GIBRALTAR

On 20th. February the "*Financial Times*" carried two intriguing reports. Simon London mused that "it would be a relatively simple matter to make resident non-domiciles (as the Armani-suited denizens of Knightsbridge are known) pay a bit of income tax in Blighty." Against that, "Wealthy foreign residents generally are a footloose bunch; tax them in London and they will simply move somewhere else, taking their spending power with them." What the writer did not point out was that with LVT replacing the likes of income and sales taxes, foreign residents would contribute to the running of the country via their payments for the property they occupy. This would provoke no exodus of the footloose, for they already pay market rents which include the full site value element.

This is a lesson that the Spanish government needs to learn too. According to David White, "Spain alleged yesterday that its exchequer was losing Pta 1,500bn (£6bn) of revenue a year from tax evasion through the British colony of Gibraltar." Land stays put. If Spain shifts the burden of revenue collection on to the rental value of its own land, there will be no such alleged leakage.

BOOMING FIT TO BUST

"House prices rose by 36 per cent in Dublin last year (and by 82 per cent in two years) . . . House price inflation [i.e. runaway housing land costs - Ed.] provides one of the mechanisms that will eventually turn the economic boom to bust" (Barry Riley, "*Financial Times*", 27th. February). For a full description of the process, see our Issue No.29. Speculation in the finite resource of land is the key.

A TIP

The new building for London's new Assembly is to go up in Southwark. This prospect, together with the Jubilee Line extension, "is raising expectations along with land prices" (leading article, "*Estates Gazette*", 13th. March). Southwark's latest housing plans "now largely exclude those on housing benefit.. . This sort of political shift in planning policy . . . provides profit for the astute developer . . . That shift will accelerate with the publication of a

promised urban White Paper in the autumn . . . Green-field development will be squeezed mercilessly - to the eventual profit, no doubt, of those who invest wisely in brown-field boroughs such as Southwark." In short, government policies make land valuable, and speculators make money out of it. No "spin" can hide the contemptible criminal fatuity of it all.

In the same issue of the same publication is an article by Dr. Nicholas Falk, which asserts that our land supply system "greatly constrains choice. This leads to housebuilders making more money from land deals than from building". He notes that "many of our towns and cities have holes in the hearts" but then calls for "tax incentives, including rate relief". Dr. Falk is a director of the Urban and Economic Development Group (URBED). As such, he ought to know that landowners just gobble up goodies like this, charging users for the chance to draw on any tax and rating advantages going. We are sure he means well, but unfortunately it is this sort of confusion and haze that helps government ministers wriggle off the hook.

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