



Shallow Legislation

THE worst kinds of legislation to come before Parliament are those that have one or more of the following characteristics: (a) deal with the manifestation of a social ill and ignore its cause, (b) are introduced to placate public concern rather than to remove it, (c) have provisions that bark louder than they bite, (d) are not based upon sound economic principles, and (e) are invidious in their treatment of citizens.

The Government's new property tax measures, details of which were announced on April 27th as part of the Finance Bill, have all of the above-mentioned characteristics. The fact that some microscopic element of the country's land values will end up in the public purse is hardly a cause for congratulation.

The widespread concern over the great upsurge in land values in the last few years and the constant publicity given to "wind-fall" gains arising from the granting of planning permissions prompted the last Conservative Government to do "something" about it. It came up with the proposals now embodied in the new Government's Finance Act, which have been adopted without any fundamental changes. Thus the manifestations of a bad land tenure system are to be dealt with instead of the system itself, and the public (voters) are to be placated with a placebo.

That the provisions of this new legislation are not to bite as hard as was originally barked out, is shown by the modification of the retrospective action of the Bill. Provided a written agreement to sell a property had been made before December

18 last year — the day after Mr. Barber announced his initial proposals, such disposals will be exempt from the new provisions. A further concession is the permission to pay property gains tax over a period of eight years. It also appears that provided the measurement of the building concerned plus 10 per cent is not exceeded in the redevelopment, a developer can add as much floor area as he likes — subject to planning permission — without becoming liable for the tax.

Briefly, the formula for computing development gains is that the developer who disposes of a property or is deemed to have disposed of it by the first letting of it, will be allowed to deduct from the sale or assumed sale price the original value plus 20 per cent to arrive at his gain. Alternatively he may take "current use" value marked up by 10 per cent from his net proceeds. Exemptions or reliefs for small disposals are also contained in the provisions — total exemption for disposals of under £1,000 (£10,000 in the case of an individual) and partial relief where they are under £2,000 (£20,000). "Indirect disposals" between companies are also liable for gains computations. Where sections of a building are let for the first time, a hypothetical sale and re-purchase is assumed, but tax liability will arise only if at least 25 per cent of the building is to be occupied.

There are various other provisions of a less important nature but the whole adds up to another wretched piece of legislation which only the lawyers will welcome — although they may well cry "enough is enough."

The benefit to the Exchequer is that for development gains (mostly the gains from higher realisable land values) the rate of tax for companies will be 52 per cent instead of the 30 per cent. Individuals with high enough incomes could face a maximum rate of 80 per cent on their property gains instead of 30 per cent.

There is no sound ethical or economic principle behind these measures for as with all other 'land tax' measures that have cluttered the statute book, they ignore existing land values and increases in land values that are not realised through development as such.

There can be no doubt that the confusion, deliberate or otherwise engendered by the constant use of the word "property" where two quite distinct elements are concerned, has clouded the debate and side-stepped the very special issue of land. This has resulted in legislation which levies taxes on the uses to which land is actually put rather than on the value of land itself. The consequences are that problems concerned with environment and housing are rendered intractable and enterprise is penalised while landholding as a source of income is encouraged.