

THE SMART TAX: a boost from Boston!

HISTORY tells us that America's independence from Britain was won on account of unfair taxes. The Boston Tea Party – all about taxation without representation – led to a federation of 13 (now 50) United States, with a constitution that allows each state, even cities and boroughs within states, to decide democratically how to raise the revenue they need to pay for public services.

Could a “reverse migration” of tax ideas now be about to bring “Smart Taxes” from one of those founding American States back to Britain, along with the principle of diversity in revenue raising that in a less-United Kingdom might be acceptable? Ironically it is a policy institute from just outside Boston, Massachusetts, that has been funding British researchers whose paper on the applicability of “split-rate” property taxes to Great Britain has just been published. And the same Lincoln Institute of Land Policy, founded by a follow-



TONY VICKERS on the lessons from America

er of Henry George, is funding me – the current head of Britain's Henry George Foundation – to look at the practical details of how such a Smart Tax could be implemented in Britain's emerging multi-layer democracy.

British politicians overwhelmingly regard tax policy as entirely a central government affair – or at least they did, until the newly devolved Scottish Parliament was in 1998 granted power to vary income tax by up to 3%. This development has stirred a sleeping giant: loathing of central Treasury control over the purse-strings of every council chamber in the land.

Local government tax policy has almost

ceased to be a Party matter in Britain. Labour in Opposition cried out for an end to “capping” (the placing of a ceiling by Treasury on the tax-raising powers of local councils). But the Labour manifesto pledge to end Conservative indiscriminate capping has been replaced by a New Labour policy of selective capping powers held in reserve. Now former Conservative Ministers call for an end to capping! Meanwhile councillors of all parties join in lobbying Ministers to loosen their stranglehold on revenue.

A handful of British politicians have surprised themselves by persuading the annual conference of the Liberal Democrats, third largest party and now in coalition with Labour in Scotland and committed to end capping, to adopt a UK-wide policy of encouraging diversity and experimentation in local government revenue raising. And a high-profile report on urban renewal is languishing on the desk of the Deputy Prime Minister, John Prescott, Secretary of State for English Regions and local government.

In that report, by renowned international architect Lord (Richard) Rogers, there is an acknowledgement that “experience overseas [of] ... a mixed rating model [of site value rating] could provide us with an alternative way forward.” But he goes on to say: “This is, however, a question for others to consider in more detail.” Rogers recommend several tax changes including a Vacant Land Tax – but not Site Value Rating.

Since 1993, the whole of the United Kingdom had “full” (buildings and land) rating of business premises, for redistribution to local councils as about one third of their revenue. Vacant and derelict commercial sites are exempt at least 50% of rates. Moreover Whitehall has imposed a uniform business rate (UBR) for each of the home nations. Rogers clearly believes there is something wrong with this: “Thinking about the longer term, and in view of the growing requirement and expectation to recognize the value of land as a finite environmental resource, there is the more fundamental issue of whether our current system of commercial property taxation – the Uniform Business Rate – is the best system to manage our scarce land and buildings resources over the first half of the next century”, he wrote in *Towards an Urban Renaissance* in June 1999.

BOX: 1

TECHNICAL FACTORS FAVOURING THE ‘SMART TAX’

- 1. Environmental planning law.** Since 1947 the right to develop land of almost all types in the UK has been explicitly reserved to the State, acting through local councils. This gives legal as well as moral force to any attempt to recover the increment in value that accrues to a land-owner upon the award of planning permission. The problem for over fifty years has been the slowness with which local planning authorities prepared their formal Local Development Plans, which give a much stronger basis for fair land valuation than trying to out-guess the market. Only now have the vast majority of some 200 local councils completed the first full cycle of Local Plan preparation. Whatever means of recovery of land values is chosen, a valuation backed by documentary proof of allowable land use is needed to minimize dispute: that can now be obtained in the vast majority of sites.
- 2. Better evidence of land ownership.** Registration of legal title to land in England only began some hundred years ago in a few counties and until 1990 only someone with a clear pecuniary interest in a site was able to discover who the owner was. In 1996 registration became compulsory whenever ownership changes hands and Her Majesty's Land Registry (HMLR) estimates that some 95% (by value) of all land – including almost every site likely to be developed – is now registered. Attributing liability for payment of LVT is therefore much easier.
- 3. Spatial data infrastructure.** Great Britain is possibly the most comprehensively, consistently, digitally and accurately mapped sizeable piece of the world. A single agency maps all of England, Wales and Scotland. Starting in 1976, all Ordnance Survey (OS) ‘basic scale’ maps were digitized – a quarter of a million maps showing every fence, building and right of way in the land to the finest detail. This mosaic of computer-readable topography (although lacking information about any legal property boundaries that happen not to follow visible features) will become a seamless ‘structured’ patchwork, continuously updated, by the end of 2001. Within the same time-frame, a national land and property gazetteer, giving unique code number and name to every addressable feature in the country, will be completed. Also the whole country has just been covered by a mosaic of air photographs showing objects as small as sheep and street-lights. One researcher has used such ‘remotely sensed’ data to deduce property values from the amount of green vegetation in an urban neighbourhood! Finally a contract to run a national land information service (NLIS), tasked with managing all property-based transactions involving government, will be let during the summer of this year. The NLIS has been successfully piloted in the city of Bristol for two years.

IN THEIR March 2000 second report for the Lincoln Institute, urban planner Professor Nathaniel Lichfield and property valuation expert Owen Connellan, pick up the challenge of Lord Rogers. Their main proposal [see box] is that Britain should adopt the split rate (land taxed higher than buildings) used in 15 cities in Pennsylvania (and elsewhere). Their "shallow end" gradual approach to land value taxation (LVT) does not rule out its eventual extension to all types of land use.

Their terms of reference constrained them to recommend only what might be acceptable to the present New Labour government (or a successor coalition dominated by Labour) and they recognize only too well the political sensitivity of reform of the hybrid local tax on residents: Council Tax. This was introduced in haste after the Poll Tax riots of 1989, which left all British politicians extremely wary of radical reform of local government finance. The Council Tax, although less regressive than Poll Tax, is the only significant source of revenue to councils over which they have control (subject to capping).

My own discussions, in the early part of my Lincoln Fellowship project Preparing for Land Value Taxation in Britain have led me to conclude that the Lichfield/Connellan proposals will only stand any chance of adoption if they meet with approval by city leaders in one or more of Britain's blighted industrial areas, such as Liverpool, Sheffield or Glasgow. A Labour Government might just be persuaded to allow one or two local pilot projects, aimed more at stimulating urban regeneration (without injections of central government money) than at trying out new forms of local government finance.

I have conducted a postal survey of over 3,000 "stakeholders" in property taxation in Great Britain, with nearly 200 responses so far. The survey seeks to discover the perceived views on issues that would surround any LVT implementation. Knowledge of the subject is poor but across all respondents – politicians, business owners, assessors and planners – there is overwhelming agreement that what I call the Smart Tax ought to be piloted in one or two areas before being implemented nationwide.

Discussions have commenced with city leaders in one northern city, where control was recently won by the Liberal Democrats. A programme of seminars is scheduled for the summer at different regional venues throughout the UK, during which problems over fair valuation of land and other aspects of LVT will be discussed. These are part of the launch of Henry George Foundation's new initiative The Progressive Forum (see advert on page 17).

Besides the changed political situation, three technical factors peculiar to modern Britain give cause for supporters of LVT to hope that Lord Rogers is not alone among the "good and great" to want to give the Smart Tax a look-in. [see box]. Given "joined up government thinking" and the political will, the allowable land use, value, ownership, position, size and identifying code of every single parcel of land in Britain could be available on-line to

every public official in the country by 2003. As the geographic information systems (GIS) software develops, this could enable huge improvements in the efficiency, speed and transparency of property transactions, especially in the assessment of fair market valuation. One of the largest international management consultants in the world (Price Waterhouse Coopers) is said this year to have offered to invest £100 million in the necessary



■ Lord Rogers

systems for Britain. Given that 80% of all business transactions include a geographic component, the commercial opportunities for exploiting a NLIS are limitless.

LVT development in Britain could ride on the back of this. My survey shows that almost all GIS professionals believe that a national land value map should comprise part of the NLIS. A Smart Tax pilot could be established just as NLIS rolls out nation-wide (contracts for this are being let as I write!) and provide a

testing ground for the necessary GIS software, particularly for the derivation of site values from sparse property market transaction data.

MY Lincoln Fellowship Project aims to produce order-of-cost information for the setting up of a Pilot of the Smart Tax in a single local authority, together with a list of further research needed and a model for the national land valuation process. I hope that further funding will enable me to refine plans for a pilot over the next year and then to work with the NLIS contractors to design a model for an on-line national land value map. The key to success lies in making the whole process self-funding: choice of an area that has sufficient vacant land and derelict buildings (currently un-taxed in Britain) to raise extra revenue to pay for the pilot and still show economic benefits is crucial.

Perhaps the most encouraging aspect of this work so far has been the support from those who currently pay the UBR. Although small business owners comprised only 10% of my postal survey sample, they make up nearly 50% of the responses. This may be because a new national valuation for UBR has just been completed, resulting in sharp changes in commercial property tax bills. Many businesses are understandably keen to know more about what a Smart Tax can do for them.

Small businesses account for nearly half the employment of the country, half the voters. A tax idea that appeals to them has a chance of success in this "nation of shop-keepers".

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BOX: 2

SUMMARY OF LICHFIELD/CONNELLAN PROPOSALS "for LAND VALUE & COMMUNITY BETTERMENT TAXATION IN BRITAIN"

1. Revaluation of non-domestic properties for rating commencing year 2000 should be undertaken on a "split" basis: distinguishing annual land rent value and improvement value (both derived from existing uses, as now).
2. Annual land value to become basis of "Owner's Land Tax" (OLT); improvement value to be basis of "occupiers rate" (OcR), both introduced soon after 2002.
3. Differential rating (as with Pennsylvania's 'two-rate tax') applied either at national or local level (depending on whether UBR is returned to local control), with OLT never levied at lower rate than OcR.
4. Combined tax liability to be met in first instance by "rating occupier" (the present payee of UBR) but OLT deductible from gross bill and passed to 'immediate landlord' for remittance to tax authorities.
5. Extend rating to (currently un-rated or down-rated) vacant urban sites, derelict properties and/or urban fringe green field sites, using "highest and best" use, based on current Local Plan (approved zoning), initially taking only incremental values (deducting current use land values).
6. At next post-2000 revaluation, reassess land values for all land at highest and best use and upgrade OLT for occupied properties to be in line with vacant/derelict ones.
7. No change to Council Tax, at least until the above measures have gained political acceptance.
8. Enhancement of Capital Gains Tax (CGT) on landed property transactions – but with allowance for offset of construction (improvement) value.
9. Green Field Development Tax (GFDT) on unearned increment of land value, hypothecated to pay for reclamation costs in contaminated urban renewal projects.
10. GFDT made an allowable charge against CGT.