

THE SECRET TAX: PLANNING GAINS

THE FLUID nature of proprietorial rights over land is illustrated by the evolution of a secret tax under the guise of "planning gain".

In Britain, the community's legal right to regulate the use to which land is put has long been established. But in the last 30 years, local governments have worked towards a situation where they can levy a huge tax on landowners. It works like this.

Usually behind closed doors, developers negotiate for permission to develop a site. Cash-strapped councillors keen to improve the amenities of their communities agree, but exact a price for granting permission: the developer has to finance the provision of facilities that are not always directly related to their projects.

• In the 1970s, the rural housing boom strained the infrastructure, so councils began to demand the provision of new roads and sewage works.

According to one estimate, the value of road-related agreements in England and Wales has increased from £42m to £134m over the past three years, with deals worth a further £500m in the pipeline.

• In the 1980s the emphasis shifted

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ted in favour of schools, youth centres and recreational facilities.

• In the 1990s, suggests a new report by Prof. Martin Elson¹ "green" issues will dictate the content of these deals, including, for example, pollution-cutting public transport facilities and the reclamation of contaminated and waste land.

Who pays? Ultimately, the landowner. For developers operate in a competitive milieu. Their profits are kept to a level dictated by the yields from alternative uses to which their capital could be put.

So when a developer seeks permission to build on a site, he does so before settling a price with the landowner. And the price of the

1. *NEGOTIATING THE FUTURE: PLANNING GAIN IN THE 1990s*. Chipping Sodbury: ARC Ltd. 1990.

2. *PLANNING POLICY GUIDANCE: HOUSING, DRAFT FOR CONSULTATION*, London, 1989.

"planning gain" is added to total development costs, which cuts the surplus that can be paid to the landowner.

The British government acknowledges that this is a tax on landowners. The Department of the Environment states: "..... plan policies should be explicit about the provision which developers will be expected to make to costs of infrastructure and community facilities, and about social housing provision so that land values take account of these costs."²

Some landowners are thus taxed on the windfall gains arising from a change in the use of their sites.

Planning gains have been criticised as "a local land tax thinly disguised," arbitrary in its incidence, random in its exactions.

But until a fair, nation-wide tax on the rental value of all land is instituted, it is the only way for a community to claw back some of the "surplus value" which - through its presence and everyday activities - it creates.

Planning gain does not have a very long formal history, but in the article below Dr. FRANCIS SMITH argues that its roots can be traced back to the philanthropist entrepreneurs of the 19th century.

Planning gain: case made

IN VICTORIAN times industrial entrepreneurs in the North of England amassed large fortunes from their cotton mills in Lancashire and from woollen goods in Yorkshire. They realised that their success depended on two factors: the cheap labour which flocked into the towns from the surrounding agricultural areas and their increasingly privileged positions as owners and employers.

In these circumstances it seemed natural to many of them that they should return to the community some of the wealth they had acquired. They presented or bequeathed parks,

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churches, libraries, art galleries and schools and thereby recorded their names and their generosity for posterity.

No doubt their benevolence was a form of paternalism rather than a recognition of the benefits they derived from the exclusive use of land and its natural products. It was a common attitude amongst big land owners and persists to a limited extent today.

In general, however, the slumps and booms of the twentieth century in industrialised coun-