

The Big Time & the Side Show

THE OLD domestic rating system was a local government tax on individual properties, based on their assessed worth in existing use and in their existing condition. Never abandoned in Northern Ireland, rates were replaced in Great Britain by the community charge, essentially a tax per adult inhabitant. This in turn is about to be discarded in favour of the new council tax, which is a hybrid of its predecessors: domestic properties will be banded according to assessed worth, but the tax imposed will take some account of the number and type of adult inhabitants.

Introduction of this council tax will be seen by campaigners for land value taxation (LVT) as a new opportunity to argue for site value rating (SVR). But if the objective is collection of the full economic rent of land, is pursuit of SVR the right way to go about it?

SVR is superior to alternative systems of local finance, and could apply equally fairly to all land, not merely that in domestic use. The valuation lists would provide evidence of the case for LVT at national level. Planners would have important new information available to help them evaluate all manner of development proposals. Because SVR would fall on land alone, improvements would be encouraged, and non-use and under-use of valuable sites discouraged.

Generally, better-off people occupy the best sites, so there would be few cases for "transitional relief".

Yet there are traps for the would-be rent collector. Denmark did adopt a modest measure of LVT; but wherever SVR was brought in, nowhere yet has it led to LVT. SVR seems to mean that a land value duty is seen as peculiarly a local government tax, and further progress blocked.

SVR will collect too small a percentage of rent for the expected macro-economic gains to materialise. Too much land value will be left in private hands for speculation to be significantly affected, so the boom/slump cycle will not be halted. Only a strong application of LVT will allow cuts in income tax, VAT, customs and excise duties, corporation tax, capital gains tax, and all the other means of

confiscating what should be private wealth. SVR would capture a small part of the land value gains deriving from general economic development, public and private investment, and infrastructural improvements, but could contribute little to solution of environmental problems or to the eradication of poverty. Its virtues are real, but limited.

The whole area of local government finance is murky. SVR becomes bogged in discussion from which LVT is mercifully free. Benefits received from occupation of sites are not necessarily related to the value of services provided locally. Local conditions vary around the country. "Needs" are different, the tax base is different, yet somehow the

two must be matched (or outside sources provided). Are local services and facilities to be supplied free (subsidised from general funds)? Are they to be partly charged for, partly subsidised? Are all costs to be covered by charging? If so, does this mean operating costs, or are capital costs included too? Will arguments of this sort lead to SVR "capping"?

SVR might follow current practice with the uniform business rate (UBR), which is paid to central government at a standard rate poundage, the proceeds being redistributed to local authorities. If SVR replaced both

the new council tax on domestic properties and the UBR, and was collected and distributed on UBR principles, it would in effect be a mild form of LVT characterised by a limited end-use. This would, though, leave local authorities without flexibility.

Nobody seriously intent on capturing rent for the public revenue should waste time on SVR other than using it to illustrate the underlying principle. SVR is not a desirable end in itself. Only full LVT is that. The one exception might arise within some possible future UK federal structure, where the constituent parts may have wide revenue options. That, though, would be geographically restricted LVT, not SVR.

WHOSE RIGHT IS IT ANYWAY?

CURRENTLY going through Parliament is the Housing and Urban Development Bill, which among other things will give owners of flats with long leases the right to force landlords to sell them the freehold. The Bill's price provisions are controversial. Capitalisation of the ground rent (low, nowhere near unimproved site value) and compensation for costs are not at issue. Dispute centres on the "marriage value" of the present freehold and leasehold interests, which together are worth more than the sum of the parts. Freeholds with vacant possession often have development potential! Leaseholders will pay half the "marriage value", which could mean a lovely windfall gain from hitherto hidden land value.

Opponents of LVT have proclaimed the sanctity of contract and the legitimacy of landholding from honest purchase or inheritance. This Bill scuppers these objections. Landownership is a question of public policy, and of Conservative Party expediency, after all.

LEWIS LITTLE