● Margaret Thatcher

Money *does*

SYNDICATES moved into the market for British forest land in the early 1960s – and that was when prices began to soar. This increase was due not to changes in the price of timber, however, but to the way in which the tax system could be manipulated – the benefits of which were converted into higher land values. PAUL KNIGHT reports.

THE BRITISH government's decision to sell off £82m worth of Forestry Commission assets – land, trees and buildings – has provoked an inevitable outcry.

Most outspoken among critics are trade unionists who fear that the mass disposal of forestry land will lead to a substantial loss of public revenue, hundreds of redundancies and the further depopulation of rural communities.

It would also endanger future supplies of timber, they argue, deprive the public of beauty spots and lead, eventually, to the disintegration of the Commission, which manages about half of all U.K. forestry acreage.

"The Tory policy is deadlier than Dutch elm disease", protests Chris Kaufman, national officer of Britain's largest union, The Transport and General Workers.[1] But the government remains unmoved. Under the terms of the 1981 Forestry Act, property worth £82.1m must be sold by March 1986.

THE SALE of Forestry Commission land is in line with Mrs. Thatcher's commitment to "privatisation" – the transfer of publicly-administered organisations to private enterprise.

The aim is to lighten the burden on taxpayers – who have to meet the Commission's costs – and enable the private sector to inject finance and expertise into a vital industry: timber.

For some, however, the government does not go far enough.

Robert Miller argues in an Institute of Economic Affairs pamphlet that "the simplest means of exposing the Forestry Commission to market forces, and eliminating its capacity to waste resources, is by de-nationalisation."[2]

Mr. Miller proposes that the essential activities of the Commission

● Britain has expanded its woodland resources by 40 per cent since the war.

– like the control and investigation of timber diseases – should be transferred to the Ministry of Agriculture.

A Forestry Assets Realisation Agency could then dispose of the Commission's assets, which are valued at £1,200m. Estimated savings to the taxpayer would be about £1,450m over a ten-year period, says Mr. Miller (Table 1).

The Commission is the U.K.'s largest landowner, with 3.069m acres. But Mr. Miller argues that this State agency has no *unique* skills; the private sector could match, if not

● Some 40,000 hectares, or 20 per cent of all coniferous forest owned by the Forestry Commission in England is over 40 years old and will be felled and replanted over the next decade.

better, its work – at considerably less public expense. One of the advantages of de-nationalisation, he adds, would be an end to the automatic government commitment to paying grants and other subsidies to the Commission (Table 2).

BUT PUBLIC pre-occupation with the future of Forestry Commission assets has diverted attention away from a more serious issue: the manipulation of the tax system, the benefits of which since the 1960s have been converted into higher land prices.

The House of Commons Public Accounts Committee sought to highlight the practice in its report on "the Inland Revenue and the taxation of woodlands managed on a commercial basis".[3]

The all-party committee objected that this form of tax "dodging" was costing the taxpayer £10m a year in lost revenue.

The committee accused the government of complacency – if not complicity. "At a time when the government are seeking substantial reductions in public expenditure, we think it particularly important to guard as far as possible against *avoidable* losses of revenue" (our italics).

The M.P.s' main complaint is that, under legislation dating back to 1915, the income from woodlands managed on a commercial basis is chargeable to income tax under Schedule B.

The tax is calculated, irrespective of the actual profit or loss in the year, on only one-third of the annual value of the land, usually a nominal figure.

Profits from the sale of trees, under Schedule B, are exempt from capital gains tax and are not otherwise chargeable to tax.

But an occupier of commercial woodlands may elect to be assessed under Schedule D – for the time he remains the occupier – thus giving him the chance to set any loss against his income from other sources.

The committee pointed out:

"The combined effect of these provisions is to make it advantageous for an occupier of commercial woodlands with a high personal rate of tax to elect for assessment under Schedule D during the early years of a new plantation. The heavy costs of planting and maintenance will then give rise to losses and allowances which can be set against his other income for tax purposes. He can avoid tax under Schedule D on the profits from the eventual sale of timber by selling his interests in the woodlands to a new occupier. The standing trees will then be treated as part of the land, and not as stock in trade, but their value will not attract any charge to capital gains tax. Under the new occupancy, the woodlands automatically revert to assessment under Schedule B and remain so over the perhaps lengthy period when the profits from the sale of mature timber

Forestry tax dodge is costing taxpayers £10 million . . .

grow on trees!

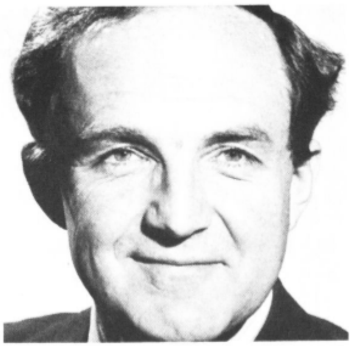
are being realised. The cycle can then be repeated by a fresh election for assessment under Schedule D before the land is subsequently replanted".

The Comptroller and Auditor General, the Commons' own "watchdog" over the way public finance is handled by government, investigated this tax avoidance and the Public Accounts Committee concluded: "What was objectionable was the manipulation by switching between the two regimes".

The P.A.C. expressed special alarm that these tax provisions were being "exploited by syndicates of high-rate taxpayers".

The Inland Revenue – when questioned by the committee – confirmed this.

> **"They explained that the syndicates might have a score or more members and they moved in as soon as woodlands had been felled and needed replanting. They remained in occupation only for the comparatively short period while expenses were heavy and resulted in losses which they could set against their income from other sources. As soon as income began to arise from thinnings and exceeded the expenses, they disposed of their interests in the woodlands, often to a pension fund or insurance company as a long-term investment free of any charge to tax beyond the nominal assessment under Schedule B. The activities of such syndicates were thought to have started in the early 1960s but they were now a substantial and increasingly-important element in the forestry industry and were currently responsible for more than a quarter of all private sector planting".**



● George Younger

THE GOVERNMENT was – and remains – unimpressed by the P.A.C.'s complaints. In a Commons debate on forestry policy, the Scottish Secretary, George Younger, told M.P.s: "The government intend to continue income tax arrangements for forestry in order to maintain confidence in the private sector".[4]

Meanwhile, land prices continue to rise as insurance companies and pension funds search for profit and agents indulge in "hard sell' tactics which feature, most prominently, the tax benefits of buying into forestry.

This is how one group of consultants itemise the attractions:

● Timber is a versatile raw material, for which there is a projected shortfall of supply, and rising prices which will outpace inflation.

● The U.K. depends on imports currently at about 92 per cent of its requirements and yet there are upwards of 300,000 hectares of unmanaged woodlands almost in total neglect.

● Forestry can be an effective means of both creating wealth and retaining this within the family for the benefit of future generations. It is ideal for legacies and life-term gifts. Affording protection against inflation, it can make provision for retirement and for the future education, housing and marriage of children – and grandchildren.

● For pension funds and other institutional investors, family businesses and trusts, it carries the promise, in real terms, of rewarding capital growth.

● In England, the total woodland area has risen by 114,000 hectares since the war, to 948,000 hectares, raising woodland area from 6.2 per cent to 7.3 per cent. Nearly three-quarters is privately-owned. In Wales, 42 per cent of the woodland area of 241,000 hectares is privately-owned.

The advantage of co-ownership schemes were explored by Joe Irving:

> **"A big plus on the side of buying growing timber and the land it stands on is the virtual certainty that prices of both will go up. But the clincher is the tax saving.**
>
> **"For bigger investors, the bulk of the capital investment can largely escape income tax. For example, under a leasing arrangement, £8,200 of £11,500 invested on a two-year split can escape tax. The next tax benefit you collect as**

● Turn to P. 33

● The Forestry Commission's enhanced grant aid for planting broadleaves has increased the annual rate of planting from 790 hectares to over 1,200 hectares over the last five years.

Table 1

Estimate of savings to the Exchequer following vesting of Forestry Commission assets in Forestry Assets Realisation Agency

£ million (1980 prices)

Year:	*1*	*2*	*3*	*4*	*5*	*6*	*7*	*8*	*9*	*10*
Grant-in-aid	10	20	30	30	30	30	30	30	30	30
Sale of assets	15	120	200	125	120	120	120	120	120	120
TOTAL:	25	140	230	155	150	150	150	150	150	150

Table 2: Grants and 'subsidies' to the Forestry Commission, 1975-76 to 1979-80

£ million

	1975-76	*1976-77*	*1977-78*	*1978-79*	*1979-80*
Total Cash Grant-in-Aid from the Government*	26·9	27·0	24·7	29·3	43·2
Notional Subsidies					
Forestry Subsidy	22·2	26·9	10·3	12·1	14·4
Planting and Re-stocking Subsidy	3·4	3·3	5·3	5·2	8·4
Recreation and Amenity Subsidy	2·8	2·7	3·2	3·4	3·5
Total:	55·3	59·9	43·5	50.0	69·5

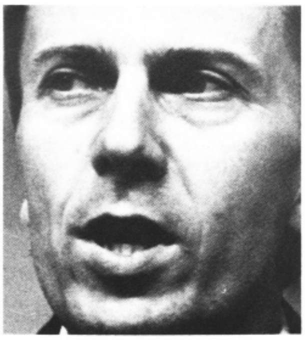
*Includes grant to the Forestry Authority.
Source: Forestry Commission, *Annual Reports and Accounts.*

. . . once again, landowners are making a killing

The gas industry is just one example of what Henry George called "natural monopolies" – enterprises which he felt should be run by the State.

Writing in *Social Problems*, in 1883, he cited the railways, the telegraph, the telephone and "the supplying of cities with gas, water, heat and electricity" as being "in their nature monopolies". In his opinion: "All businesses that involve monopoly are within the necessary province of government regulation, and businesses that are in their nature complete monopolies become proper functions of the State."[3]

George had in mind that, in any single locality, it would be irrational to have more than one set of railway lines running from A to B, or to have more than one network of gas or water mains or electricity supply cables serving the houses in a street. In these fields, he argued, private enterprise, left to itself, would inevitably contrive its own private monopoly for its own private gain. So it was essential for the government to move in and establish State monopolies from which all citizens could derive benefit.



● Norman Tebbit – a 'brisk' approach to privatisation

It is sometimes contended that Henry George's "natural monopolies" were not *complete* monopolies. Railways face competition from road transport; electricity competes with gas and vice versa.

This is true, but while such competition from *outside* the industry may curb the wildest excesses of monopoly, the lack of competition *within* the industry will almost certainly blunt the zest for efficiency. Prices to the consumer are likely to be higher than they would be if producers within the industry were competing against one another.

The fact that the gas industry has produced profits steadily rising for many years (from an average of £227m a year in the 1970s to £370m a year so far in the 80s) hardly suggests that competition from oil and electricity is causing much concern in the Gas Council boardroom.

HOWEVER this may be, when it came to the land monopoly, George did not take his own advice. Faced with the vision (if his ideas took root) of enormous bureaucracies being set up to nationalise and administer the land, he quite properly advocated not a State take-over of land but a take-over of the *economic rent*.

As he wrote in *Progress and Poverty*: "We should satisfy the law of justice, we should meet all economic requirements, by . . . abolishing all private titles, declaring all land public property . . . I do not propose either to purchase or to confiscate private property in land. The first would be unjust; the second needless . . . It is not necessary to confiscate land; it is only necessary to confiscate rent".[4]

The big question to-day is whether there is a similar – and simpler – alternative to State ownership of coal, gas, the railways, electricity and the rest. Is there a way of taking these industries out of the clutches of government and placing them in an environment conducive to efficiency and growth, yet without depriving the community of the "rent" – the income arising from the industry's monopoly?

There are certainly indications that this would be possible. In the extraction and marketing of North Sea oil, for example, and in the concessions to run television and radio networks, we see the operation of the "franchise" system. Under this, the contractor who is licensed to provide the service or produce the product is required to pay a levy, this being fixed at a level to reflect the probable bonus earnings of the concession, i.e. the income over and above that attributable to the work of labour and the investment of capital.

Since 1977, the North Sea oil companies have contributed around £20,000m to the national exchequer, a sum which, although assessed on a different basis from a land-value tax (and therefore lacking its incentive effect) nevertheless may not be vastly different from the full economic rent of the North Sea oil concessions.

So the possibility exists that, one hundred years after Henry George's original thinking, and by making full use of modern methods of accounting, computing and information gathering, we could stomach his "natural monopolies" being operated by private enterprise – provided the monopoly elements of their earnings are assessed and collected as public revenues.

With this in mind, we must await with interest the details of the Government's proposals. If we can privatise these industries without the people at large losing the "rent" – the monopoly element of profits – we may be well on the way to having the best of both worlds.

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● FORESTRY – from p. 31

a forestry investor is when you sell. Although any increase in the land value is liable, no capital gains tax is payable on the sale of timber. Finally, after two years' ownership, the value of woodland is halved for capital transfer tax purposes. The liability is reduced even more if the investment is gifted more than three years before the donor's death. The tax take is then at life-time rates instead of the heavier death rates. For example, on present rates, a £200,000 gift would normally put £30,000 into the taxman's pocket at the life-time rate. As a forestry gift, the death rate rake-off would be £14,750 and the life-time rate only £7,375."[5]

WHY SHOULD the "money men" be so bullish about British forestry when the government is not?

James Erlichman in *The Guardian* offers this answer. "Fundamentally, it is because the institutions accept the forecasts . . . that a world timber shortage is imminent, which will cause real timber prices to rise by 30 per cent in the next 20 years – just when British forests will be maturing."

But timber prices are only half the forestry equation. The other half relates to the way the value of the land is boosted by tax concessions.

Prices are rising steadily. Once again, the landowners are making a killing, aided and abetted by a malleable tax system.

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