

—Business in sad

BRITAIN'S Conservative Party presented itself throughout the Eighties as the champion of business enterprise, standing up against, in the red corner, the arch-enemy - high-spending councils.

The notion of business, straining at the leash, and held back only by taxation and bureaucratic restrictions, has been one of the ruling ideas of the Thatcher years. It gave us, firstly, the rate-free Enterprise Zones and now the government's reform of the business property tax, the Unified Business Rate (UBR).

We might have expected the business community to be grateful for its new found freedom from the depredations of rapacious socialist authorities, but as soon as firms discovered how much more they will pay under the new system, howls of anguish attracted headline attention.

The Confederation of British Industry (CBI) and the National Federation for the Self Employed (NFSE) predicted widespread ruin. The CBI estimated that over 500,000 businesses would see their rates rise by 20% a year in real terms for the next two years, whilst 100,000 businesses, which were expecting their rates bill to fall, would gain no advantage because of the transitional arrangements.

The CBI called for protection for the "losers" during the transition period. NSFSE went even further, reiterating its long-held view that business rates should be abolished altogether.

Such a response indicates a superficial understanding of the issues and an inability to appreciate the long-term implications of this tax change. It is true that, because of the poor transitional arrangements, many businesses will have a problem if their rates have risen sharply. Of far more importance, however, is the effect of the new tax as it works its way through the economy.

ALL PROPERTY taxes are based on rental values. The component of this which relates to the value of the land is determined by location and sustained by the infrastructure provided by the community. To the extent that the UBR is a tax on land values, it will be related both to ability to pay and benefits received, since it will be highest in areas of greatest geographical advantage.

Considered in relation to all the other taxes to which businesses are subject, the UBR is reasonably fair and involves firms in little in the way of administration; it is far less burdensome than Value Added Tax, Corporation Tax or

THE peasants of England revolted when the monarch tried to impose a Poll Tax on their heads in the 14th century. Their descendants, today, are every bit as angry - and are taking to the streets in mass demonstrations, up and down the country, against the Poll Tax which comes into operation this April. Some of their leaders are stalwarts of Prime Minister Margaret Thatcher's Conservative Party.

• A shaken government has fought back with a smear campaign: the revolt, they say, is led by extreme left-wingers known as the Militant Tendency. And Mrs Thatcher has sought to deflect attention from the groundswell of opposition to her favoured alternative to the residential property tax - which is now abolished - by attacking Labour MPs who advocate civil disobedience.

Many people are unable to pay the tax, which falls on everyone over the age of 18. Others can afford to do so, but are refusing to pay because of what they see as the inequities of the tax. In Scotland, where the Poll Tax was introduced a year earlier than in England and Wales, the bailiffs will go onto the council housing estates in droves, next month, to try and recover the Poll Tax by selling people's possessions.

A full report on the mass disobedience will appear in the next issue of *Land and Liberty*. Here, HENRY LAW explains the other half of the Thatcher "reform" of local government revenue: the retention of the property tax for commercial and industrial property, but levied at a uniform rate across the country.

employees' PAYE Income Tax, which, despite appearances, is effectively a tax on business.

But although the UBR is levied on occupiers of business premises, in the long run, the burden of the UBR will fall on landlords. This will come about because the main consideration of tenants is the total cost of occupation, and therefore property taxes tend to depress rental values. By this mechanism, the UBR will be passed backwards to landlords.

Conversely, landlords quickly claim any cuts in property taxes as rental values rise, as we shall see in those parts of Britain where the UBR will result in lower payments. This process has been well documented, notably in the Enterprise Zones, where rents inside the zones were higher than those outside by the amount of the rate concession.

For this reason, it is pointless for the business organisations to argue for the abolition of rates; those members who occupied tenanted property would gain nothing. The Federation of the Self-Employed has only to look at what happened in 1928, when agricultural rates were abolished: the benefit was absorbed by increased rents.

With the realisation that the burden of the UBR

will ultimately fall on landlords, the CBI's response is scarcely relevant. The UBR has been well publicised for the past two years. Businesses have been told what to expect, and rentals, which have until recently continued to rise by 15% - 20% annually, should have already discounted the forthcoming changes.

If firms now find the new rate too much of a burden on top of their rents, they will negotiate harder at their next rent review, pressing for a smaller rent rise to compensate for the higher rate rise. The standard upwards-only rent revision clause in business leases certainly makes things difficult, but this, strangely enough, is a problem about which the CBI and NFSE have never expressed any concern!

So far as businesses who are owner-occupiers are concerned, if the UBR results in hardship, they have only themselves to blame, because their problems are due to sloppy accounting practice which counts imputed rental income as "profits". Their businesses then appear to be healthier than they really are; some firms that seem to be making profits would not be viable if current market rents had to be paid for the premises occupied.

By distinguishing between profits and imputed rental income, at current market values, firms would set themselves realistic targets and would not be so vulnerable to increases in the property tax.

THE FURORE over the UBR carries more than a whiff of humbug. Until recently, annual rent rises were higher than most of the forthcoming rate rises, and because landlords ultimately pick up the rates bill anyway, the complaints of the business community are misguided, their arguments deficient and their proposals not in the interests of their members.

All of which is not to say that the UBR will be good for business. It will not, and the transition arrangements will prove damaging. But what is needed is not a cushioning from central government, but action on upwards-only rent revision clauses.

Rental values, after all, can go down as well as up, and a government claimed to be in favour of allowing market forces to operate freely would have outlawed upwards-only rent revision clauses long ago. At the very least, it could have made a once-only provision to set aside upwards-only clauses to enable tenants to negotiate lower rents to take account of any higher rates due to the

introduction of the UBR.

No doubt, where the UBR results in lower charges, rents will adjust upwards quickly enough! With a ban on upwards-only rent revisions, firms could have protected themselves against the short-term impact of rate rises by negotiating with their landlords - and the members of the business organisations might well ask why their representatives failed to press this.

Worst still, the business organisations have done their members no service by keeping quiet about the continuing exemption of agricultural land from rates, and by ignoring the problem that the UBR, like its predecessor, penalises modernisation and improvement: higher rates are payable on a new, well-equipped factory than on an outdated one.

Owners who keep their premises vacant are rewarded by a rate reduction, whilst land speculation is encouraged because vacant industrial land is deemed to have no value. This does nothing for the economy.

The remedy, is a rate based on site values alone, ignoring buildings and improvements. All land zoned for commercial, industrial or agricultural purposes would be assessed at its market value and subject to the standard rate.

Bringing vacant and agricultural land into the rating system would spread the tax base and save manufacturing and service industries substantial sums of money. The CBI has no excuse for not being aware of the option of site value rating and of the benefits which this would bring to industry, and if its research department was doing its job properly, it would have been able to put a figure to the potential savings. The business community could then have presented a credible alternative. Even now, it is not too late to put forward proposals for improving the rating system in time for the next round of valuations.

The business community's reaction to the new property tax indicates a widespread ignorance. Of 218 businesses questioned in a survey by NFSE, 76% had not even heard of the UBR and 95% did not know how it would affect their business.

Discounting of rents to allow for the higher UBR may, of course, not have happened if the lack of awareness amongst businessmen is so widespread, but if many of them really have been caught out, perhaps they should blame themselves for their choice of newspaper; businessmen ought to realise that they need to know what is going on in the world if they want to succeed. One might also ask why the CBI and the NFSE did not keep its members properly informed of the impending changes?