

OPPOSITION FUNKS POLL TAX TEST

BRITAIN'S impending Community Charge, generally known as the Poll Tax, is a gift to the two main opposition parties. But unless they have a sound alternative to offer, their debating position is weak. Sound alternatives to the Poll Tax are, unfortunately, what neither party has managed to come up with so far.

The Labour Party has managed to shoot itself in both feet by advocating a combination of both a local income tax (LIT) and a domestic property tax based on capital values.

Under the Democrats' scheme, put forward by the Association of Liberal Councillors, employers would deduct the local income tax at a standard rate of, say 5%; at the end of the tax year, residents of areas where the tax rate was less than the standard rate would receive refunds. Those in areas with higher LIT rates would pay the difference; 70-80% of people would get refunds.

This proposal is probably the most thoroughly worked out arrangement for collecting LIT so far devised, but that is not saying much. At least five difficulties come to mind immediately:

- Tax rates would be high in

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areas where incomes were low or unemployment was high - creating a disincentive to work other than in the Black Economy.

- The year-end system of adjustment payments and refunds would create serious administrative problems for local authorities.
- It would be unfair, and a source of hardship, if local authorities were holding £150 or so of each tax-

payer's money, awaiting refunds.

- When people moved in the course of a tax year, there would be a problem establishing precisely when they had done so, especially as this would substantially affect the size of their payment or refund.
- Local authorities would receive no income from empty houses and residents of second homes.

IN A SMALL country like Britain, a local income tax would pose particular problems because people frequently move

Bullets in their feet!

DEMOCRATS PROBE LVT PROSPECTS

THE new Social and Liberal Democratic Party approved a "green" paper at its first annual convention in Blackpool which backed land value taxation in these terms:

"A tax on the value of land is not only easy and cheap to collect but can encourage positive planning. For example, vacant land designated for development could be taxed as though it were developed, so providing an incentive for development."

"By relating the tax to the planning system, such a tax could also be used flexibly to encourage those land uses desired by any particular local authority."

The paper, *A Green and Pleasant Land?** was produced by the Land Use Planning

Working Group. An amendment calling for the adoption of the paper was supported, which proposed further research into the practical implications of land value taxation.

The document argued in favour of "the return to the community of a reasonable share of the increase in the value of land when planning permission is granted for development."

And the Working Group wanted "recognition of the fact that land is a natural asset and that the community can therefore expect some financial return from people who either waste or profit from this asset."

Adoption of the paper does not commit the party in policy terms, yet. The proposals now go forward for further consideration, and will be embodied in a "White" paper for further debate within the party.

* *Federal Green Paper No 6, 4 Cowley Street, London, SW1P 3NB. £2.50*

from one local authority area to another. This is why a property tax is the most practical way of raising revenue for local services; people are mobile but property is fixed. In coming up with a scheme like this, the Democrats' case is going to be demolished by the supporters of the Poll Tax - and deservedly so.

If replacing the Poll Tax with LIT is a doubtful proposition, the Labour Party seems intent on getting the worst of all worlds. Labour would use local income tax to raise between 10% and 20% of the total contribution made by residents to local authorities, with the balance coming from the domestic property tax based on capital values. The national business rates would go, and business rates would be fixed locally once more.

The first snag is that any form of tax costs a certain amount to administer, regardless of the revenue that it raises. For the sake of efficiency, tax systems should not be allowed to proliferate. If LIT was used in addition to a property tax, the cost of collecting it would amount to 10% of the yield!

Nor is there much to be said for Labour's version of a property tax based on capital values. It would revive the most unfair feature of the present rating system: rates penalise improvements. A higher rate would be paid on a well-maintained and modernised house than on a property which had been neglected. Does Labour really wish to use the tax system to encourage neglect of the housing stock?

ASSESSMENT on capital value would cause other problems, too. The basic value of a pro-



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perty is its annual rental value. Capital values are derived from the annual value, and dependent on factors such as interest rates, expectations of future increases in value and the mood of the market. Rental values are fairly stable. Capital values are not. Capital value assessment also gives rise to a further difficulty: the tax erodes its own tax base, because capital values are themselves affected by the tax liability.

The Labour Party's thinking on business rates is equally misguided. There is nothing wrong with its proposal to re-introduce some form of local business rate, but, as with its domestic rate, using the present method of assessment, improvements would still be penalised.

So long as rating valuations include buildings and plant, higher rates would be payable on a modern, well equipped factory than on an outdated building or on a valuable site which was used for some low-grade purpose such as outdoor storage. This system bears heavily on manufacturing industries such as steel and chemicals and is hardly an incentive to industrial enterprise.

The Labour Party has always complained about the way that the Conservative government has allowed industry to run down, but this proposal will do nothing to reverse the process.

Labour thinking has also

ignored the benefits which the national business rate will bring, in promoting regional development, by transferring resources from the more prosperous parts of the country to those which are less favoured.

The national business rate will do this because rates are based on rental values which reflect geographical advantage and disadvantage. The national business rate will be related both to ability to pay as well as to benefits received from the community at large in the way of infrastructure. In this way, the national business rate should help the economies of the regions at least as well as any of the bureaucratic aid schemes which have been devised over the past 40 years.

Given the Labour Party's stated aims, one might have expected that its policymakers would have acknowledged these benefits. Had they done so, they would have suggested that the national business rate should be kept in place alongside the local rate - there is no reason why it could not be. This would have given a Labour government the opportunity to reduce other taxes - for example, those which bear hardest on the low paid.

BUT THE Labour think-tankers seem to have overlooked a lot of things. Not a word is said about the long-standing anomaly of agricultural land, which is exempt from rates. And the party experts evidently ignored or failed to understand the convincing evidence in favour of land value rating which was pushed in front of them by the Labour Land Values Group, a working party chaired by Dave Wetzel, former chairman of the

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THEIR LORDSHIPS' NOT-SO-FUNNY TREK

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which took away the powers of the House of Lords finally to nullify legislation passed by the Commons.

The Parliament Act was necessary because the Lords had rejected a Bill which provided for a tax of 20% of any increases in value of land after 30 April 1909, to be paid when land was sold or transferred, plus a halfpenny in the £ on undeveloped land.

Despite the Parliament Act, the tax itself, as well as a more radical tax in 1931, was never implemented to any sub-

stantial extent because of the power of the landowning interests.

THE TREK was almost comical. The landed Lords in the main did not normally interest themselves in the positive business of the second chamber, but on being asked by the political party in power who looks after their interests to the detriment of those who work, made the one-off visit to vote.

The comical part is that their votes could not ultimately be effective because the law, as laid down in the Parliament Act 1911, gives the ultimate decision to the Commons.

'Too mystical' for Labour?

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Greater London Transport Committee and author of the highly successful but short-lived Fares Fare policy.

The land value rating option was at least considered. It was rejected because, in the words of Tony Page, research assistant to Dr. John Cunningham, Labour's spokesman for the environment, land value rating was "too mystical" and "difficult to understand". Obviously, Australians, New Zealanders, Danes and Pennsylvanians are gifted with a special power which enables them to penetrate this mystery, since they have managed to live with land value rating for decades.

If Labour had come out in support of land value rating, this would have resolved the problem of capturing development value, which has been a preoccupation of the Labour Party for 40 years. As it is, the way is open for Labour to devise a Mark 4 version of betterment levy, which, like its predecessors, can be guaranteed to crash-land

before it reaches the end of the runway.

HOW HAVE the two parties managed to make such a mess of their policies? Looming over any discussion of local government finance is the 1975 Layfield Report which tends to be treated as Holy Writ. Its recommendations are constantly trotted out because policies tend to be made in headquarters offices by bright young economists with first-class honours degrees who have just completed their post-graduate qualifications.

Economics, unlike, say, the physical sciences, is not usually treated as a heuristic discipline. The study of the subject depends

on a method of working which collects as many opinions on the subject as possible, and somehow splits the difference between them; it does not encourage the student to start from first principles.

Thus, in defence of Labour's proposals, Page claimed that they had the support of lots of experts - which is a useful substitute for arguing for the policies themselves. And the youthfulness of so many of the policymakers means that they lack the experience to recognise bunkum. If they had the slightest knowledge of the world where things are paid for in cash, no questions asked and no receipts given, they would give short shrift to ideas such as local income tax.

The Conservatives will have no difficulty in tearing Labour's proposals to shreds. If they find their way into Labour's next election manifesto, the suggested combination of local income tax and domestic property tax based on capital values should help to keep the party out of office for a further term.

Local Income Tax - A Better Way by Philip Truscott. Price £2.50 Published by the Association of Liberal Councillors Birchcliffe Centre, Hebden Bridge W. Yorks HX7 8DG.

Local Services, Local Choices, Local Taxes. Price 75p Published by the Labour Party 150 Walworth Road, London SW17 1JT.