Rates: How taxpayers subsidise the landlords

ANALYSIS BY T. E. ENDE

IN THE COMMERCIAL and industrial field, the tenant of a retail shop or of a workshop or factory, gets (1) the rate support grant (2) the London rate equalisation scheme allowance, where it applies, (3) tax relief on rent, and (4) tax relief on rates. In the year ending March 31, 1981, the local rate in the London Borough of Hackney is made up as follows:–

		£ . p
Borough		**237.86**
Greater London Council		**87.44**
Metropolitan Police, etc.		**26.58**
Total rate:		**351.88**
Deduct appropriations from balances		**7.79**
Nett rate:		**344.09**
Add expenses of GLC and Thames Water Authority		**1.00**
		345.09
Deduct housing subsidies and other Government grants	**88.11**	
Deduct rate support grant (needs element)	**134.75**	
Deduct contribution from rate equalisation scheme	**.23**	**223.09**
Commercial rate payable:		**122.00**

It is assumed that a lock-up retail saleshop in a good secondary shopping thoroughfare in the London Borough of Hackney rating area has just been let on a 20-year internal repairing lease at a rental of £3,000 a year excluding rates, and that the lease provides for a review of the rent every fourth year.

The rateable value is £800 and the commercial rate, charged at 122p in the £, amounts to £976, and the water and sewer rate is £37 a year, so that the total of rates is £1,013 a year. The tenant's allowances are as follows:

	£ . p
Rate support grant at 134.75p on £800	**1,078.00**
London rate equalisation scheme at .23p on £800	**1.84**
Tenant's tax relief on rent, 30% on £3,000	**900.00**
Tenant's tax relief on rates, 30% on £976	**292.80**
Total of tenant's allowances:	**2,272.64**

The effect of this is that the *landlord* is getting the benefit of £2,272.64 in rate support grant, rate equalisation, tax relief on rent, and tax relief on rates, plus the difference between the rent of £3,000 and £2,272.64 allowances, namely, £727.36.

The landlord is allowed £300 on account of his liability for structure, roofs and drains, so that he is taxed to Schedule A on £2,700, and thus of £2,272.64 he is recieving in support from the taxpayers and relief from taxation, he is returning 30% of £2,700 to the Treasury, namely £810.

The incredible state of affairs as we have to face it is that successive Governments of all political parties have been raising year after year thousands of millions of pounds from the taxpaying public intended to support the worker-trader-capitalist, and are then feeding it into land ownership in the form of increased prices, premiums and rents for every kind of landed property used in industry and commerce.

THE ECONOMIC principle upon which the foregoing argument rests was formulated by David Ricardo* when he established that "Corn is not high because rent is paid, but rent is paid because corn is high." The principle applies not only to the growing of corn but extends to all agricultural crops and all domestic, commercial and industrial land uses.

Manifestations of this principle may be observed in agricultural and housing subsidies and in other aids and tax concessions to land users where these subventions are ultimately reflected in the higher price of land.

Similarly with government, rate reliefs and all subsidies designed to lower the costs to occupiers of rented accommodation – they end up capitalised in property prices or rents. A businessman seeking to rent or buy commercial or industrial premises finds that the value of the concessions and reliefs intended for him is already built into the rent or price asked.

NO COUNTRY can stand this weight of state aid for landowners and survive economically. What is the remedy?

At first sight, it might be suggested that the trader should be allowed to deduct his subsidies and allowances from his rent before paying the rent to the landlord, but this would simply result in increased rent at each review. In the end the trader would lose to land ownership.

The remedy for our economic troubles is to raise all

******Principles of Political Economy* **(1817), Everyman's Library, p.38.**

Chinese threat to HK boom

HONG KONG'S property prices are causing concern. The property boom caused the stockmarket to outperform the world in the past year. The new political regime in China was largely responsible. For by opening up trade links, entrepôt trade in Hong Kong jumped 34% in 1978 and 52% in 1979. Reports the *Far Eastern Economic Review* (Sept. 5): "This has helped push up the property market." But the prosperity for some is a burden for most. The *Hong Kong Standard* (Sept. 7) warns: "Property prices are rising even higher, thus driving rents and prices paid for new homes higher and higher." Meanwhile, controversy still exists over China's intentions towards the colony. Britain's lease runs out in 1997, but the crunch date is 1982—for 15 years is the repayment period for the loans and mortgages which are keeping the colony's property market afloat.

● John Heddle

SPECULATION: MUGS AS VICTIMS

FOR EVERY successful land speculator there must be ten mugs. Which is why the ancient story of greed and misfortune has to be constantly repeated.

This particular version began in 1975, when Kent estate agent John Heddle – then chairman of his county's branch of the Incorporated Society of Valuers and Auctioneers – issued his first warning:

People in the south-east of England were buying tiny tracts of worthless land in the belief that they might one day make a fortune.

The collapse of the property market in 1974 had failed to serve as a warning: avarice overcomes caution and shortens memories.

THEN Mr. Heddle entered Parliament as the Tory MP for Lichfield and Tamworth.

And five years later, it seems, it is still necessary to warn against the shrewd speculators who were cashing-in on the gullibility of the great British public.

This time, however, Mr. Heddle had the House of Commons as his platform. He has used it to good effect.

What he called "this obnoxious form of land speculation" had spread throughout the country. And he warned that the problem would intensify unless the Government took swift action.

The ruse, it seems, is this. Speculators buy up parcels of agricultural land, usually of poor quality and in the green belt.

They pay knock-down prices – from between £500 and £2,000 an acre – and then carve up the land into tiny plots of 100 ft x 40 ft. These are then sold for between £150 and £1,000 a time, yielding minimum profit margins of £3,000. Said Mr. Heddle:

"The poor buyer, usually a town dweller, to whom the prospect of a plot of land in the country is a chance of a lifetime, is left with a piece of land which, he is assured by carefully-worded advertisements and ambiguously-worded sales particulars, can be used only for gardening, leisure and related purposes, but which in reality is absolutely worthless . . ."

By Colin Green

There is no access by road, no sewerage, no running water, and the new owner is not even allowed to erect a fence around his property!

"One can see how the poor buyer can easily be short-changed by the activities of these speculators using the English language in its most elastic and persuasive form," declared Mr. Heddle.

NORMAL planning measures are inadequate to deal with the problem, "the primary cause of which is the physical division of the land into plots," explained Mr. Heddle.

Such provisions as exist do not protect "the poor purchaser who has parted with his life savings," for they are effective only after the land has been developed and the speculator has made off with his "ill-gotten gains."

Mr. Heddle has now proposed two forms of action:

● Bring the Fair Trading Act 1973 into play; and

● Reinstate the sale of land under the Trade Descriptions Act 1972.

Quick action, he warned, was necessary "to control the abuse which fosters speculation of the most undesirable kind, leaves purchasers penniless, causes the loss of productive land and the disruption of viable agricultural units, and so allows some dubious people to drive a coach-and-four through our planning Acts."

A dossier of evidence has now gone to the Department of the Environment. But even if this particular racket is stopped with the help of planning laws, under our present system of property ownership an alternative formula will be devised to exploit the unwary who are in search of unearned fortunes.

Some *will* make fortunes.

But for each one that does, there will be ten mugs who will be left with what – back in 1975 – Mr. Heddle described as "a pig in the poke"!

local revenue locally within local government areas for local purposes and all capital sums through normal funding means. The following is the outline of a sensible fiscal policy.

1. The rating system should be maintained and there should be insistence on regular re-assessments of the valuation lists.
2. The rate support grant (introduced by the Local Government Act 1948) is a serious mistake and the 'needs element' and the 'resources element' should be phased out so as to reduce the massive increases in the price, premium or rent of all rateable property which it has forced upon the nation. The 'domestic element' might be kept to deal with individual hardship.
3. Income tax allowance on rent and rates and mortgage interest should be phased out in the commercial, industrial and domestic spheres because they increase prices, premiums and rents of all property to which they apply.
4. The 'differential' between commercial, 'mixed' and domestic rateable property should be abolished.
5. Agricultural land should be made more easily accessible by levying the local rate on it, thereby reducing its selling price.
6. The threshold of income tax should be raised to correspond to the savings outlined above so as to bring millions of people out of income tax altogether and relieve others.
7. Rating authorities should be given the option of adopting site-value-rating so as to simplify and quicken the process of valuation, and thereby not penalising the producer according to how hard he works.