RATES: Tories in a dilemma

Computer aid vital to rout tax cavaliers

By FRED HARRISON

PREMIER Margaret Thatcher does not pull her punches when she discusses rates, Britain's property tax. She says:

"I will be absolutely candid about rates. It is not a good system of taxation".

Despite the best brains in Whitehall to advise her, however, Mrs. Thatcher has not been able to produce a satisfactory alternative to this form of taxation, which in fiscal year 1985/86 is forecast to yield £13.6bn ($17.5bn) out of total government revenue of £150bn.

Despite the Tory Party's conversion to an anti-rates stance ten years ago, the government has failed to articulate reforms to the locally-administered property tax. Once again, however, the issue is on the political agenda, and the government promises to produce a White Paper on rate reform before the end of this year.

Firm and detailed proposals are now promised: the Tories know that they cannot yet again enter a General Election with no more than whimsical promises to do away with the time-tested rating system.

The Tories are already suffering because of a rank-and-file backlash in the Scottish shires. According to a recent opinion poll, Tory support north of the border dropped from 28 per cent to 22 per cent of the electorate, thanks to the recent property revaluation which pushed up rates bills.

THERE are few intrinsic defects in the property tax.

The problems arise because of the cavalier way in which it is administered.

Strongest hostility is generated because properties are revalued on too-infrequent a timetable.

Properties in England, for example, have not been reassessed for tax purposes since 1973. Values over the past 12 years have risen exponentially, which means that property owners are guaranteed a shock when they receive revised rates bills.

In Scotland, the new revaluation promised to turn into the proverbial straw that broke the camel's back: in some cases, rateable values have risen to ten times their previous levels.

The burden is making some small businesses bankrupt and forcing some domestic ratepayers to sell their homes.

This would not happen if local governments, using the latest computer technology, were allowed to re-assess values every two years.

Small, incremental increases in the property tax would be applied with lower increases in rents and land prices. So there would be no body-blows of the sort that are inevitable if values are allowed to go unassessed for ten years or more.

THE THREE problems with the property tax in Britain can be rectified.

- The tax falls on the value of buildings as well as on land: this is a deterrent to capital formation and

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POLITICS AND THE PROPERTY TAX

1974 Margaret Thatcher persuades Tory Party to pledge, in October election, to abolish rates "within the lifetime of a normal parliament." Labour wins.

1976 Layfield Report on local government finance; no reforms implemented.

1979 Tory Manifesto refers to desirability of abolishing rates. Tories win election.

1981 Government consultative paper 'Alternative to Domestic Rates' admits "it will not be possible to replace domestic rates overnight".

1983 Mrs. Thatcher rejects Cabinet committee report which recommends few changes; she orders work to be done again for new committee which she chairs.

1984 Mrs. Thatcher and Ministers admit defeat. Environment Secretary Patrick Jenkin says on March 23: "The Prime Minister herself emphasised that we cannot keep reviewing rates for ever. So rates are here to stay for the foreseeable future."

1985 Emergency summit at Chequers in scrambled search for alternative to rates. Treasury ordered to increase domestic rate relief grants to Scotland from £14m (1984) to £102m.

U.K. RATING REFORM

Poll tax extra burden on poor

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job creation. Buildings should be de-rated (see page 89).

● Vacant land is exempt from rates, whereas in countries like the United States the owner of idle land is liable for the tax. Untaxed land encourages speculation.

● Tax rates are low — too low to make a positive contribution towards persuading owners to put their land to its best appropriate use (even if buildings were de-rated). This is a fault common to the property tax throughout the world, but it could be swiftly remedied – for example, to offset the loss of income arising from the derating of buildings.

These are peripheral problems to what would happen if the property tax were wiped out, as Ireland is now beginning to find out.

The British government has not considered the income effect. A poll tax, which the Thatcher Administration appears to favour, would increase the burden on low income families. And landowners would increase rents to mop up the savings that might otherwise have gone to their tenants.

Then there is the wealth effect. Land values would have incorporated into them the amount that would otherwise have been paid as a property tax. So with a shift in the incidence of taxation away from property, and on to earned income, the asset value of wealthowners would soar.

This would amount to a massive redistribution of income in society in favour of those who now own property, and make it that much more difficult for everyone to buy a house or commercial premises.

Mrs. Thatcher has already begun to erode the disposable incomes of poor families. For under her government's review of the welfare state, everyone no matter how poor is supposed to pay a proportion of their rates.

At present, millions of people who occupy houses are exempt from this liability. *If they are tenants*, they will eventually be able to pass the liability for rates on to their landlords. But *as owner-occupiers*, the burden will fall on them.

That there are millions of people who are not able to generate incomes that are sufficient to meet their basic needs reveals something about the nature of the economic system.

● Mrs. Thatcher wants a "residence" tax (otherwise known as a poll or head tax) in place of the property tax . . .

In our view, imperfections in the property market constitute the major obstacles to the fluid and efficient market economy that Mrs. Thatcher wishes to create.

She will compound those problems if she carries out her threat to abolish the rating system.

YIELDS OF MAJOR RECURRENT TAXES ON IMMOVABLE PROPERTY – 1979

Country	Tax	Beneficiary government	Yields in National Currency	Yields as % of GDP(1)	Yields as % of total tax revenue of general government	Yields as % of tax revenue of the relevant government
Australia	Land Tax	State government	258 m	0.27	0.80	6
	Rates	Local authorities	1,216 m	1.19	3.99	97
Denmark	Land Tax	Municipalities & countries	4,338.5 m	1.24	2.82	n.a.
	Service Tax	Municipalities & countries	648.2 m	0.18	0.42	n.a.
France	Land and Building Tax	Municipalities	8,973 m	0.15	0.94	0.96
	Land Tax	Municipalities	3,307 m	0.39	0.36	0.34
	Property Tax	Municipalities	14,020 m	0.60	1.45	1.47
Germany	Real Property Tax (Grundsteuer)	Municipalities	5,202.9 m	0.37	1.00	12.8
Ireland	Rates	Local authorities	85 m	1.16	3.47	100
Japan	Fixed Assets Tax	Municipalities	2,523 bn	1.15	4.58	33.9
	City Planning Tax	Municipalities	425 bn	0.19	0.77	5.7
	Special Land-Holding Tax	Municipalities	66 bn	0.03	0.12	0.9
Netherlands (1978)	Municipal Tax	Municipalities	1,820 m	0.61	1.28	92.0
	Contributions to Polder Boards	Polder Boards	380 m	0.13	0.27	43.0
New Zealand	Land Tax (3)	Central Government	10.7 m	0.05	0.16	0.01
	Rates	Local authorities	464.0 m	2.22	7.12	92.7
Spain	Rural Land Tax	Local authorities	2,582 m	0.02	0.08	1.48
	Urban Land Tax	Local authorities	13,789 m	0.11	0.45	7.89
Sweden	Municipal Guarantee Tax	Municipalities	1,832 m	0.40	0.80	n.a.
Switzerland	Recurrent Tax	Communes	289 m	0.18	0.59	0.7
Turkey	Immovable Property Tax (3)	Central government	5,335 m	0.25	1.20	n.a.
United Kingdom	Rates	Local authorities	6,123 m	3.30	9.51	100
United States	Property Tax	State and local authorities	64,943 m	3.60	9.29	35.46

1. Gross Domestic Product at market prices. Source: Table 3.6, Revenue Statistics of OECD Member Countries 1965-1980 Paris, 1981.
2. i.e. own tax revenues and non-tax revenues.
3. Note that Land Tax in New Zealand and the Turkish Property Tax are levied by central governments.
n.a. = not available; m = million; bn = billion.
SOURCE: Taxes on Immovable Property in OECD Members Countries, Paris: OECD, 1983.