LAND VAT INVESTMENT BLOW

BRITAIN'S construction industry is about to be hit by the introduction of Value Added Tax (VAT) on non-residential land.

The tax was forced on the Thatcher government by Common Market rules, and it will be levied on the transaction price when land is sold.

But under a new clause slipped into the Finance Bill passing through Parliament in May, the tax will also be payable by firms redeveloping land which they already own.

And the tax will fall on current market value, not on the historic cost of the site to the owners.

Barclays Bank is the first to fall foul of this change, for it plans to redevelop its £150m Lombard Street site. VAT at 15% adds £22.5m to costs, with another £22.5m VAT on the £150m cost of the building.

According to the Bank's managing director, Mr Andrew Buxton, about 4% of the land in the City, London's financial centre, is redeveloped each year. That means over a 20 to 25-year period all the land in the City is redeveloped.

So within that period all property in the City will have been liable to VAT. If City land is worth £20bn, that is £3bn VAT at today's prices – and according to Mr Buxton, the tax will seriously damage the City's ability to compete worldwide.

Ian Barron comments: a tax on the sale price of land seriously undermines investment and the growth of the industrial economy. This has been shown by successive Labour government attempts in the postwar years to capture part of the increase in land values for the benefit of the community.

Landowners will now have less incentive to develop or redevelop their land, which will reduce productivity and curb both economic growth and the creation of new jobs.

On the basis of past experience, we can expect that this effect will more than offset the tendency for the tax to reduce the profit from the sale of land (the tax cannot be passed on by the landowner). A lower supply of land means that prices will actually rise in the market place.

Lord Set-aside's bonanza

LORD Sainsbury "farms" a 367-acre holding in Hampshire, one of the Home Counties with some of the most fertile agricultural land. Except that the lord, one of Britian's richest men, receives £30,000 a year for doing nothing to grow food.

He has joined the government's set-aside programme, which is supposed to reduce surplus food stocks. But now that he does not actively work the farm, Lord Sainsbury has decided to sell it to whoever wants to buy the acres and do nothing with them!

Asking price: £850,000 complete with buildings.

Says Euro-Member of Parliament Richard Cottrell, who thinks the EEC's farm policies are the height of folly: "It's complete madness. We don't want to give dockers a job for life so we abolish the dock labour scheme. Yet here we are giving a farmer a job for life while his green wellies are hung up never to see a farmyard again."

According to Dr. James Jones, a lecturer at the Royal Agricultural College School of Business, land that is registered for the set-aside scheme "must be some kind of asset to the saleability of the farm."

◄From Page 60

As he became Secretary of State in the 1930s, he set the course of tariff reduction which spread through much of the world. His ideas were formed in an era when George's efforts must still have been rather directly influencing opinion.

Every U.S. president for half a century has spoken out for freeing trade. The issues have not been markedly partisan for two generations at least until recently. With many more independent countries, the opportunities for obstruction have multiplied. The variety of restrictive devices has increased. Non-tariff barriers are numerous and often largely hidden. We hear about unfair methods of discouraging imports and encouraging exports – a complex and frustrating set of conditions.

Competition grows more intense for several reasons. Consumers benefit. Some industries and their employees suffer. Typically they seem to prefer burdening their fellow Americans by favoring restrictions on trade as against wage-rate reduction – an understandable reaction.

The potentials for mutual benefit from international specialization and exchange grow as incomes rise over the world. Areas not so long ago poor, Taiwan for example, are now the source of consumer goods that appeal to Americans and the market for American goods and services.