IPTI Xtracts

Property Tax and Assessment News from Around the World

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This practical fix shows why the chancellor should introduce a land value tax

Advocates have started from the wrong premise. Ahead of the Budget, it's time to recast the proposition

Ever since the 19th century, economists and social philosophers have advocated for a land value tax (LVT) as the fairest and most progressive form of taxation possible. With land in fixed supply, monopolist owner-occupiers pay no tax on the imputed economic rents they enjoy, but benefit from the asset price growth brought about through improvements to local infrastructure and amenities, which are paid for by others.

Residential land accounts for over 75 per cent of the UK's total land value and represents over 40 per cent of the UK's total net worth. Volatility in the economy, as well as many of the problems within the housing sector, are partially attributable to unsustainable rises in land values. An LVT could remedy these problems, as well as lead to a more equitable society overall.

Yet repeated attempts to introduce LVT in the UK have failed, originally due to a combination of landowner resistance and insufficient data, and more recently because of the impossibility in practice of replacing Council Tax with the much fairer system that LVT represents.

Now, with the Budget approaching, economic effects of Covid-19 forcing the government to look for ways of increasing tax revenues, and calls from across society for the introduction of some form of wealth tax, this is an ideal time to look again at LVT.

So how could it be introduced in practice?

All recent proponents of a residential LVT have started from the premise that it would replace Council Tax. After all, we would surely just be replacing one form of property tax with another. This will never work, for the simple reason that the Council Tax Bands and rates are so out of date at the higher end of property values, they bear no relationship to the market value of today's homes. How can a Council Tax of £2,474 per annum on a £30m house in Kensington, compared to £2,398 per annum on, say, a £500,000 house in Solihull, be considered as a proportionate property tax? Council Tax has become a (very flawed) system of charging home occupiers for Local Authority services.

But to replace the overall £33bn of Council Tax due for England in 2020-21 would require an LVT rate of around 0.9 per cent. While land values vary widely as a percentage of property market values across the country, 66 per cent is a reasonable guide. At 0.9 per cent this would imply LVT on the Kensington house of around £180,000 a year (and approximately £3,000 a year on the house in Solihull). And at Local Authority level, Kensington and Chelsea could expect their annual receipts to rise from £106m to £787m, whereas Birmingham's would fall from £362m to £115m. Such dramatic shifts are clearly unacceptable.

A further problem is that Council Tax is payable by the occupiers of a property (who may be tenants), whereas LVT is charged only to the owners.

So, an obvious solution is not to replace Council Tax, leave it as it is, and introduce LVT as a new tax, starting at a very low rate. If LVT was introduced at, say, 0.05 per cent per annum, rising at this rate over four years to 0.2 per cent, the initial additional burden on the Kensington house would be £10,000 pa, rising to £40,000 pa; and for the Solihull house, initially £165 pa rising to £660 pa after four years.

These low rates would apply to owner-occupiers and "small scale" landlords. Other categories of owner such as: non-resident, corporate, large-scale landlords, owners of long-term empty dwellings, and holiday homes in certain designated areas, could expect to pay significantly higher rates of LVT, starting at say 0.5 per cent pa and rising to perhaps as much as 3-4 per cent in some cases.

Two accompanying tax reforms would make sense: reduce Stamp Duty Land Tax on purchases of principal primary residences (PPRs) to a flat 1 per cent, which studies have shown would significantly free up the housing market, at a cost to the Exchequer of around £320m pa. By comparison, LVT at a uniform rate of 0.05 per cent across England would raise approximately £1.6bn pa, and with the higher rates advocated above, total LVT receipts would be much greater. Secondly, introduce Capital Gains Tax at around 10 per cent on all PPR disposals.

This package of reforms would achieve multiple economic and social objectives: a gradual redistribution of locked in "land wealth" to the wider population; near eradication of the housing market as a form of speculation; and strong incentives to maximise efficient use of all the country's housing stock.

All the necessary land and property ownership data exists today within one or another government agency. Market prices are readily available to complete the picture. Several (developed) economies have successfully operated LVT for a number of years.

There are of course various complications and issues that would need to be resolved (these are discussed in a fuller online version of this article), but the chancellor could do a lot worse than put LVT back onto the agenda in his autumn Budget.

ACS responds to post-Covid tax inquiry

The Association of Convenience Stores (ACS) has responded to the House of Commons Treasury Select Committee on the implications of Covid-19 on tax policy.

The House of Commons Treasury Select Committee launched an inquiry calling for views on whether the government's economic response to the pandemic should be reflected in changes to taxation.

In the submission, ACS reiterated calls for the business rates system to incentivise investment by introducing a Growth Accelerator Relief scheme delaying increases in rates bills for property improvements.

In addition, ACS highlighted the need for the 2020/21 business rates holiday to be removed through a tapered approach until the next revaluation to prevent hitting retailers with spikes in business costs.

ACS chief executive, James Lowman, said: "Local shops have been working tirelessly to ensure that they can continue to feed their communities safely and effectively throughout the pandemic, with many shops acting as a lifeline for their communities, particularly those who are more vulnerable or isolated.

"Convenience stores pay and collect a total of £8.9bn a year in taxes, and it is vital that the tax system is fair to these businesses. This inquiry is also an opportunity to think about how tax policy can incentivise investment and sustainable growth, specifically through changes to the business rates system."

MPs campaign to flush away business rates for public loos

A CONSERVATIVE MP is campaigning to get business rates for public toilets scrapped as legislation edges closer to becoming law.

Richard Holden, Member of Parliament for North West Durham, has spoken in the House of Commons to get business rates scrapped for all public toilets.

As co-chair of the Across-Party Parliamentary Group on Local Democracy, Mr Holden has been working to free up funds for local councils by ensuring they do not have to pay business rates to open and maintain public toilets.

Speaking in the Remaining Stages of the Non-Domestic Rating (Public Lavatories) Bill in the Chamber, Mr Holden said that he 'recognised the great work that parish councils are doing' in places like Rookhope and Wolsingham.

He also stated that the work parish councils do for the communities is one of the reasons he has been such an 'active campaigner' in Westminster on their behalf.

Commenting, Richard Holden, MP for North West Durham, said:

"I am delighted that we have seen the remaining stages of this Bill in the House of Commons and I am looking forward to it being debated in the House of Lords in the coming weeks.

“It’s such an important piece of legislation – my parish councils face spending two per cent of their annual budgets on business rates and this relief will make a huge difference to their finances.

“Not only will this legislation enable councils to spend money on what the community needs, but it will support our local areas by ensuring that people have access to public loos which, for some people, can be the deciding factor in whether or not they are able to go out.”

Coronavirus: UK house prices at record high after biggest monthly leap in 16 years

UK house prices hit a new all-time high in August after the biggest monthly rise since 2004, according to new figures from Nationwide.

The average home sold for £224,123 ($299,828) in August, up 2% from £220,935 in July.

It provides the latest sign of the mini-boom in Britain’s property market in recent months, with pent-up demand after lockdown and a temporary stamp duty holiday fuelling growth in sales and prices.

The data from the building society, one of Britain’s biggest mortgage lenders, showed a 3.7% increase year-on-year. Analysts had expected just a 0.5% rise on July, and a 2% annual increase.

The market has now erased all the losses seen in May and June. Robert Gardner, Nationwide's chief economist, said it reflected the "unexpectedly rapid" recovery in activity since lockdown curbs eased.

Gardner highlighted not only pent-up demand, but also people reasesssing their "housing needs and preferences" as a result of life under lockdown. "Social distancing does not appear to be having as much of a chilling effect as we might have feared, at least at this point," he added.

The news sent housebuilding stocks soaring, with four building firms among the top 10 biggest daily risers in morning trading on London’s FTSE 100 (^FTSE).

Barratt Developments (BDEV.L) leapt 7.7%, Taylor Wimpey y (TW.L) rose 5.9%, Persimmon (PSN.L) rose 4.8% and Berkeley (BKG.L) rose 4.3%.

It comes a day after official figures showed lending for new mortgages soared by 66.2% between June and July. Lenders approved 66,300 mortgages for residential property purchases in July, according to a comprehensive survey by the Bank of England (BoE) published on Tuesday.

Approvals were only 10% below February levels, and more than seven times higher than the 9,300 mortgages signed off in May in the wake of national lockdown and lenders prioritising efforts to help existing mortgage customers.

UK chancellor Rishi Sunak announced a temporary stamp duty holiday on purchases under £500,000 ($671,000) in England and Northern Ireland in early July. The threshold had previously been £125,000, albeit with higher thresholds for first-time buyers.

The finance minister said at the time the measures would “catalyse the housing market and boost confidence,” as the government battles to drag the country out of a deep recession.

Hugh Wade-Jones, managing director of brokers Enness Global Mortgages, said this week the tax cuts had “turbo-charged” the market.

Lettings have lagged behind the sales boom, but separate figures from property firm Knight Frank on Tuesday also showed viewings for lettings had hit a ten-year high in London and the Home Counties at the end of August.

The company said students had driven the surge in demand, as uncertainty over starting university mid-pandemic and the recent controversial release of exam results delayed accommodation decisions.

The rebound in the residential property sector comes in spite of the dire state of the wider UK economy and a wave of job losses. Government and central bank crisis measures including low interest rates, mortgage re-payment holidays, and the furlough scheme are seen to have buttressed the market.

Gardner said the stamp duty cuts would boost "near-term" demand for purchases by bringing some transactions forward, but suggested the rebound may eventually fade.

"Most forecasters expect labour market conditions to weaken significantly in the quarters ahead as a result of the aftereffects of the pandemic and as government support schemes wind down. If this comes to pass, it would likely dampen housing activity once again in the quarters ahead.”

SCOTLAND

Massive tax appeals backlog leaves thousands of Scottish firms 'in limbo'

THOUSANDS of Scottish firms have been “left in limbo” because of a backlog in business rates appeals, sparking fears that failure to fast-track the system could tip many over the edge.

The dramatic change in trading circumstances sparked by the pandemic has led to more than 50,000 material change in circumstances (MCC) appeals being lodged with assessors.

However, it is understood all of those appeals remain outstanding, and have been heaped on to a backlog that was already facing assessors before the crisis took hold.

The Scottish Government this week pushed back the next revaluation of business rates by one year to April 2023, but experts at property firm Colliers International fear this will be too late.

Louise Daly, associate director at Colliers, who leads the Colliers rating team, urged for action now to deal with the backlog. Ms Daly told The Herald that businesses need assessors to “proactively” alter property valuations to reflect the huge change in circumstances the Covid crisis has brought, “rather than going through the appeals” process.

Ms Daly said: “They tinkered around with the revaluation, but that will not help businesses now. Businesses will not survive [if they have to wait to 2023].”

Ms Daly said none of the MCC appeals have been dealt with, noting that assessors have until March next year to respond to them.

Alongside action by assessors, Ms Daly suggests the Scottish Government should make an early decision on whether the current one-year holiday from business rates, given to retail, hospitality and leisure businesses as part of emergency support measures, should be extended.

That relief is due to expire on April 1, 2021,but Ms Daly said businesses need to know now to provide visibility on fixed costs, particularly with the furlough scheme coming to an end.

Ms Daly said: “Thousands of Scottish businesses are being left in limbo, urgently looking for clarity. Ratepayers cannot wait for another revaluation to happen in 2023. There is a need to reflect the material change in circumstances as soon as possible.

“Businesses need to know what their liability will be, or they could be forced into making ruthless decisions, such as branch closures and job cuts, in preparation for the increased costs they will face.”

She added: “The Scottish Government has a key role to play by making an early commitment to extend reliefs to allow businesses to budget accurately. With business rates relief in the worst-affected sectors, such as retail and hospitality & leisure, currently set to be removed in seven months’ time, liability will increase from 0 per cent to 100 per cent overnight.

“Assessors must take action now to deal with the biggest, most significant MCC likely to occur in our lifetime.”