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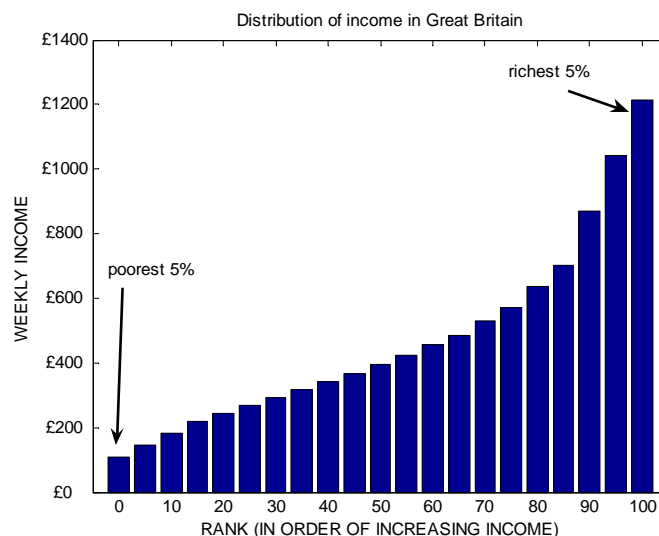
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Property Tax in the UK: the Social Justice Argument

The advantages of land tax are often promoted in terms of economic efficiency. However there is another advantage of land tax that is overlooked: without a significant element of tax on property holdings, income tax is unfair.

In Britain income is unevenly distributed. If you took a representative sample of 100 people, and formed them into a procession from lowest paid to highest, you would find that the five lowest paid each earn only about £100 per week. The next five would each be on about £150 a week. The wage would rise quite slowly as you moved along the procession, so people near the middle of the procession– the 50th person and the few afterwards– would be earning on average just over £400 a week. After this incomes would increase faster, and the fortunate five or so people at the end of the procession would be earning a very comfortable £1200 per week.

This procession is illustrated in the bar chart below . The population of Great Britain has been divided into “5-percentiles”, from lowest earners to highest earners, and the bar chart shows the average income received by each percentile. It must be emphasised that the figure for each percentile is averaged over the individuals in that percentile: in particular, a few individuals in the top 5-percentile receive considerably more than £1200 – for example, professional footballers or bankers– but this is made up for by the many individuals who receive slightly less.

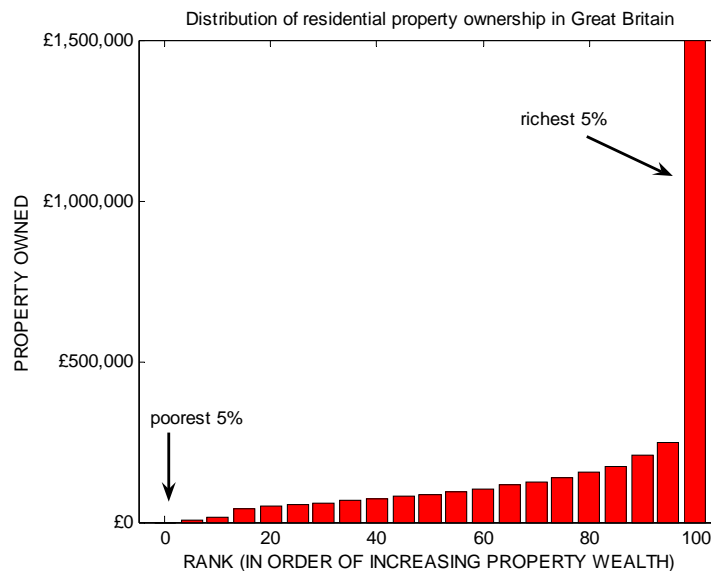


source: Institute for Fiscal Studies: Report “Inequality and Poverty”

Income tax seems to be a fair way of raising money for government expenditure. Provided it is levied at a rate that is proportional to income actually earned, the result is that the richest in society pay their fair share of its costs. In fact, in Britain income tax is actually “progressive”, i.e. a higher tax rate is levied on higher incomes. So far so fair.

Unfortunately there is a problem, especially in Britain. While income is distributed unevenly, ownership of wealth (such as property and financial assets) is distributed even more unevenly. This is shown in the bar chart below, which shows the distribution of property wealth, again divided into 5-percentile segments of the population. While the distribution of income shown in the figure above is certainly uneven, it is nothing like as skewed as the ownership of wealth shown below.

In fact, if you made a procession of 100 people in order of property wealth the richest 5 would own almost half the total. They would be on average 6 times wealthier than the next 5 persons in the procession- themselves relatively affluent individuals- and 15 times as wealthy as persons in the middle of the procession. Over half of all UK wealth is privately owned residential property ¹.



source: HM revenue and customs Estimated wealth of individuals in the U.K., 2003 (year of death basis)

Broadly speaking, property wealth and high income go hand in hand, so the people at the top of the “property” procession are pretty much the same as those at the top of the “income” procession. In the “income” procession, the 5 persons with the highest income get about 20% more income than the next 5 highest, so they pay rather over 20% more tax. But due to the distribution of property, they are 600% wealthier.

When tax is based exclusively on income, individuals who are outside the wealthy elite will compare themselves with others who are many times wealthier and see that the amount of tax they pay is not very different. But tax erodes their limited wealth at a disproportionate rate. The more unequal the distribution of wealth, the worse this group is affected.

¹ Source: Office National Statistics “Capital Stocks, Capital Consumption and Non-Financial Balance Sheets 2008”. Net worth of UK is ~£7tn. Value of privately owned residential buildings is ~£4tn.

Tax will never be welcomed, but it should at least be fair . A tax based on wealth in the form of land and buildings must be part of a fair system, operating along with income tax. Such property wealth is an excellent indicator of overall wealth, and is especially easy to identify: land cannot be moved or taken offshore, unlike financial assets. Any property tax needs to be well implemented, and truly reflect market values (unlike the notoriously regressive council tax, which is almost a flat rate poll tax based on outdated valuations). This is entirely feasible: site valuations are transparent and supported by an open market. There are economic advantages: property taxes levied on the value of the land holdings encourage efficient use and discourage property speculation.

There is a popular belief that income tax is the fairest tax, since it reflects ability to pay. This is a misapprehension. Income tax is easy to extract, and for the very wealthy is relatively painless: but it does not truly reflect ability to pay. Unless politicians find the courage to tax wealth, conservative minded middle income earners will continue to complain bitterly that their taxes are too high, and they will be right.

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