IPTI Xtracts

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Retailers demand major overhaul of business rates after Next Christmas sales slump 9.2% and High Street crisis claims luxury fashion brand Charlotte Olympia as its latest victim

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Leading retailers called for a major overhaul of business rates yesterday after Next suffered a sharp slump in store sales in the run up to Christmas.

With pressure mounting on ministers to reform the outdated tax, fashion chain Next said sales in its 500-plus stores fell 9.2 per cent over the crucial festive period.

In a clear sign of how shopping habits have shifted, the company said online sales soared 15.2 per cent in the same period, meaning overall revenues were up.

The update from Next came as the crisis crippling the High Street claimed its latest victim, with part of the Charlotte Olympia luxury fashion empire plunging into administration.

Next chief executive Lord Wolfson said business rates needed transforming to reflect changing shopping habits as more consumers go online to make purchases.

‘People have to wake up to the new reality that the days of high streets being filled with clothes stores are over,’ he said.

The crisis has been highlighted by the Mail’s Save Our High Streets campaign as a swathe of job cuts and store closures have hit Britain’s towns and cities.

Lord Wolfson’s comments were echoed by former Sainsbury’s boss Justin King, who is now on the board of Marks & Spencer.

He said business rates were disadvantaging bricks and mortar retailers which are struggling to compete with online rivals such as Amazon and Asos.

He added the Government has failed to fully address the issue because it was 'distracted' by Brexit.

The crisis at Charlotte Olympia comes after HMV filed for administration.

The entertainment retailer said its £15 million business rates bill was partly to blame for its struggles. Next paid around £80 million in business rates last year.

SCOTLAND

Debate over land value tax is set to rumble on

Many landowners have been upset by the Scottish Land Commission's (SLC) appointment of the University of Reading to conduct research to assess, with reference to international experience, the potential of land value taxation (LVT) to contribute a more productive, accountable and diverse pattern of land ownership and use in Scotland and to identify a set of potential policy options that merit further consideration by the SLC.

This is quite different from simply raising tax revenues which could be achieved by rigorously ensuring multi-nationals pay the full amount due on their profits, or by clamping down on the use of offshore tax havens.

The fundamental problem with Scottish agriculture is the incredibly benign tax system for land that has led to increasing land values consistently outperforming the stock market, with all that capital growth going untaxed. No wonder land values have soared making it difficult for new entrants to get a first rung on the farming ladder.

LVT is a recurrent tax on landowners based on unimproved land value, usually levied as a percentage of the unimproved capital value of the site. Normally there is an assumption that the unimproved land has the right to be developed in accordance with its "highest and best use". LVT is implemented in many countries, though several have moved away from it in part or in whole (for example South Africa and New Zealand).

According to economic theory, land value is the price of monopoly - the scarcer and less substitutable a parcel of land is, and the more attractive the location in relation to the market (consumers) and factors of production (labour, raw materials), the more valuable the land. The report argues that because land is a "gift of nature" and does not cost anything to produce, this value net of the value of any improvements may be taxed without harm to economic efficiency and production. Further, it is argued that where land values rise, such as on the grant of planning consent, this is due to the actions of the community, not the landowner or occupier.

In addition to the obvious purpose of raising revenue for government, economic theory suggests that LVT has a range of benefits that include encouraging highest and best use of land and capturing the uplift in private wealth that arises due to public investment. It may also encourage denser development and therefore limit urban sprawl, and it may stabilise the price of real estate by reducing and stabilising underlying land prices.

According to the report there is little firm evidence that these theoretical benefits have been achieved in the countries that have implemented LVT. It goes on to argue that politically, LVT can be challenging to implement. Political arguments against LVT centre on the windfall loss incurred by landowners, the difficulty in dismantling centuries of landownership rights, the impact on other taxes and the potential that a LVT would tax individuals with property wealth but who are cash poor and may not have the ability to pay.

The report goes on to outline a number of other technical issues that make LVT difficult to implement.

Not surprisingly, Scottish Land & Estates (SL&E), the organisation representing Scottish landowning interests agrees.

Sarah-Jane Laing, executive director of SL&E said: "We'll need to reflect further on the details before commenting further, but we can say that taxation must be considered in the round, rather than looking at just one idea in isolation, and all the unintended consequences well thought through.

"Land value tax has been debated for many years but has not been taken forward by any administration because of the potential impact it may have on not just rural Scotland, but the whole of the country."

I am inclined to agree and would much prefer a return to the old system of taxing land on the death of the owner. That would put downward pressure on land values by making more available to purchase, and could yield substantial sums to government at a time when ordinary, working folk are being squeezed by taxes.

Of course, such a policy would have to be carefully introduced to avoid breaking up viable family farms into uneconomic units. To that end, the death duties would have to kick in above a set value and on an incremental scale. More importantly, avoidance schemes, such as trusts that never die, would need to be outlawed.