a taxing PROBLEM

Environmental historian Raymond Smith looks at what sort of fiscal incentives will encourage brownfield development.

Fiscal incentives are designed to promote urban regeneration and protect the countryside, but this will not necessarily save greenfield sites.

Discussions about tax measures to encourage brownfield development usually concentrate on landowners, developers and occupiers.

But what are the options and what are their implications for the construction industry?

There are a wide variety of possible tax advantages which the Government has considered.

Some involve the reduction of urban council taxes, seen as politically unpopular and unfair. More likely options include stamp duty reductions and relief in corporation and personal taxes – even making occupiers' insurance premiums tax-deductible.

In practice, these would be tightly targeted in a handful of urban priority areas, and not just to avoid abuses of the system. Although very localised, these could create new opportunities for contractors, particularly if combined with more direct regeneration funding. Much, but not all, would be refurbishment.

But at the heart of the debate, there is an unacknowledged inconsistency. The use of fiscal incentives has two distinct aims. One is the regeneration of run-down urban areas. The other is protecting the countryside from further building by shifting market-led construction on to brownfield sites.

It is often assumed that simply creating more housing on brownfield areas will save greenfield, but this is not necessarily true.

Great swathes of brown land are in areas of low housing demand. Trying to use tax breaks to make brownfield development relatively cheaper and so shift development away from greenfields will not work in these ▶

places. In areas of high demand ,brownfield sites are likely to be developed anyway.

Tax incentives would only move development from green to brown sites in areas of moderate demand where prices are not normally high enough to cover additional costs of brownfield sites compared to greenfield. The impact of tax breaks for this aim would therefore be localised.

Discussions on VAT harmonisation have been confused by the public's failure to appreciate the difference between new build (whether on green or brown sites) and commercial to housing conversions which are all zero-rated, and refurbishments which are exempted, so that any VAT spent on them cannot be recovered.

The most popular option at present seems to be for them all to be put on a level playing field and rated at 5%. This would be good news for refurbishment specialists. But there would be more administrative costs for everyone.

How likely is this policy?

The answer depends on your view of the price impact of new taxes on housing economics. Some argue that VAT would be politically unpopular because it would raise house prices. On the other hand, if you believe that the selling price is the maximum that the market can stand, then a tax cannot increase this. The tax must therefore be borne by the owner or developer (the site value and the profit margins would effectively be reduced). Contractors' prices might also be squeezed.

A similar argument applies to taxes on greenfield building. This policy was popular with John Prescott, and was widely discussed during 1998 as a way to subsidise urban regeneration. However, it did not survive to be a main recommendation from the Urban Task Force.

It was unpopular with the Treasury, which has long opposed 'hypothecated' taxes. No doubt developers were also unhappy. In a sense it was an attempt to revive past 'development taxes' and as such was rather too Old Labour for New Labour.

Behind the proposals as they have evolved in the UTF's thinking there is a curious anomaly.

Some landowners may be reluctant to sell because they put an unrealistic 'hope value' on their land. They could be encouraged to release it on to the market by a 'vacant land tax' which made leaving it empty an expensive option.

On the other hand there have been discussions of giving tax advantages to developers to encourage them to landbank brown rather than green land. The implication of this is that one group would be taxed for leaving land empty, but another would be encouraged to leave it vacant until they were ready to redevelop it. The obvious solution for landowners is to re-invent themselves as developers. Contractors should therefore not be surprised by 'time-wasting' from some clients.

Some argue that VAT would be politically unpopular because it would raise house prices

What would be the effect if there was a shift to more brownfield use?

There would be obvious advantages for contractors with more experience in this area, but they might find themselves dealing with some relatively inexperienced developers who are refugees from the greenfield sector.

Given that many brownfield sites may also be significantly contaminated there is likely to be increasing pressure on landfill space. The resultant price increase could shift the balance in favour of more innovative (on site) treatment processes.

The issue is due back onto the agenda this autumn. The long awaited white paper on urban regeneration is due to be published soon, and this or an associated document is expected to contain proposals for fiscal incentives.

There are however, fundamental economic questions behind the problem of generating demand in the places where there are generous supplies of brownfield sites, and these may be far beyond the scope of the white paper. ■