Site-value tax test

B. W. BROOKES reports on TASMANIA

WHILE British poll-tax payers – and those who prefer to be non-payers – contemplate the sinking of Margaret Thatcher's flagship and reflect on the alternative ways of raising local revenues offered by the contending political parties, a group of citizens in the Antipodes are making progress in demonstrating to their government that a change in the local taxation system is also needed there.

At present, municipalities in Tasmania get their revenues from a property tax similar to Britain's former domestic rates – by taxing the annual value of land and buildings taken together. This system, and the way it maltreats those people who improve their properties, has long been the subject of criticism. Now, Tasmania's Municipal Reform Group have made an extensive survey to expose what they call "the fallacy of rating improvements".

Since 1970, the Group have surveyed a total of 28 municipalities to see how a change to site-value rating, under which buildings are completely excluded from the assessments, would compare with the present system.

Over the past four years, the Group have prepared 15 reports covering nearly 30,000 properties. The results show that the number of "winners" and "losers" from the change of system would be almost even; the assessments of some 15,000 properties would be reduced, while about 13,000 would be increased.

However, a detailed analysis reveals that, behind the statistical similarity, the pattern of changes compared with the way the present tax falls would be little short of dramatic.

Householders, for example, would make substantial gains. Of the 12,000 residential properties surveyed, nearly 11,000 would get reduced assessments, most of them slashed by more than fifty per cent.

Owners of commercial properties would also do well. Nearly three-quarters of the one thousand business properties that the Group examined would get lower tax-bills, more than half of them benefitting to the tune of fifty per cent or more.

Most of the properties that would be more highly rated under the site-value system were either vacant sites in the towns or "squatters" in the country, the latter being valuable plots of rural land not being used to their full potential. The great majority of these would find their assessments increased by more than fifty per cent.

The Reform Group's survey demonstrates conclusively that site-value rating would force a clear swing in taxation, away from well developed properties – houses, shops, office buildings – and towards those where inferior buildings and shoddy structures demean the intrinsic quality of the sites. There is no doubt that, if the change were made to the new system, the owners of such properties would be under strong financial pressure to modernise and improve.

The Group's honorary secretary, Ron Excell, told *Land & Liberty* that he saw the results of the survey as a complete vindication of the Reform Group's long-standing advocacy of "modern rating".

"The rating of improvements", he said, "has always been a blot on Tasmania's record as a progressive and enlightened community. It is about time we recognised the scandal of rating more heavily those who use their land properly and the sheer injustice of charging owners more in tax whenever they modernize their homes".

Referring to the properties that would be assessed more highly, he said: "Most of the vacant sites are valuable plots in or near town-centres whose values benefit considerably from local development, much of it financed by the general community.

"The majority of the rural properties that would be rated more heavily are valuable plots, probably held for speculation, that have been allowed to degenerate into weed-covered eyesores".

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(6) Strengthening of the tax system for individual long-term capital gains to a flat 30% from the present 20% and 25%, beginning in 1992. Also, the inhabitants tax will increase to 9% from 6% and 7.5%.

(7) Reduction of the reduced rates for supply of residential land to 15% from flat 20%, beginning in 1991. Inhabitants' tax will decrease to 5% from 6%.

(8) Strengthening of the tax system for corporate capital gains. Beginning in 1992, a 10% tax in addition to ordinary corporate tax will apply to long-term (over five years) capital gains. The tax system for super-short-term two years or less gains will also be strengthened.

(9) Countermeasures against tax avoidance. A certain amount of real estate income loss related to interest on land investment loans will not compensate for other income.