

A Town Planner Looks at Site-value Rating

PETER HUDSON

Peter R. Hudson, D.M.A., M.I.L.G.A., has been a town planning administrator with the former London County Council and two London boroughs. He is currently living in the US. In 1964 he was a Haldane Essay prize winner following submission of a paper on Compensation and Betterment.

THERE CAN BE no doubt that rating reform in Britain will be hotly and emotionally debated for two reasons: first, rating has a long history and the present system with all its short-comings is the result of a series of evolutionary changes made over time for reasons of necessity, practicability or sheer expediency and secondly because the domestic rate and the way in which living accommodation is assessed affects nearly every residential occupier in the country. But there must be reform if local authorities are to retain their many and varied functions and finance locally a substantial part of the consequential costs, and the Government is quite right in accepting that full consideration must be given to all the alternative and additional sources of revenue which appear to offer themselves. The recent Green Paper should have been a useful step in this direction but none of the proposals were examined in depth.

The Green Paper says: "the almost universal conclusion has been that a property tax such as rates must remain the principal source of local revenue . . ." Within this context, however, there are many kinds of property tax application. The present system, which is the result of changing attitudes over more than 500 years can be said to have the following main characteristics: the rate is levied against a hypothetical valuation; the valuation is one of rental value of buildings and structures (improvements to land) and the liability for the rate payment rests with the first-hand beneficiary of the occupation. Recently the optional rating of vacant properties has been added.

The most important feature of the present system is, however, that the rate is levied against an appraisal of a clearly defined value of real property. In making the valuation no consideration is given to ability to pay, the economic or the social effects of the tax levied. These latter aspects are dealt with quite separately from the valuation and this is how any reasonable property tax must be administered. Indeed this principle is established throughout the world in countries which levy taxes on

real estate. When discussing property taxes it is therefore important to separate the related issues of the property to be the subject of valuation. These are the administrative machinery of valuation and appeal, and the socio-economic machinery which may be invoked to off-set certain undesirable aspects of property tax impact such as relief to charities, deserving cases and the poorer taxpayers.

If we look at the property taxes levied in other countries we find some follow the British system fairly closely and others differ significantly. Here, in the US for example, it is a cardinal principle in most States that property taxes must be based on a valuation of all land and improvements and that these two must be assessed separately. It is unthinkable to most Americans that agricultural land or vacant urban sites should not be assessed and taxed. After all, they are very valuable real estate and the tax is levied against value. The issue as to whether or not there is any beneficial occupation or use of the land does not arise. The tax is on real estate so all real estate is assessed and taxed. In some States differential rates are levied on the land and improvement value elements. In a few areas, as in many parts of Australia, New Zealand and South Africa, only the land-value element is taxed.

Knowing how these countries operate systems of local taxation involving the taxation of land values either in substitute or in addition to taxes raised on improvement values, it was interesting to read the views expressed in the Green Paper on site-value rating. Some of the points which have been made are certainly worthy of further consideration if only to help clarify some of the practical issues involved.

Let us consider the point that town planning legislation and development decisions in Britain would have significant effects on assessed values and that a person liable for a site-value rate would find himself at the mercy of planning authorities. The arguments run that it would be unreasonable to tax someone on the basis of a devel-

opment value which was not realisable or on a value which might be unrelated to existing use value.

In the first place, it is worth noting that planning authorities are in fact both custodians and users of rate revenue. A prudent planning authority will have some regard to the revenue implications of its planning decisions taking into account the provisions of the development plan which has been prepared in the light of economic considerations. If the planning authority in its wisdom has decided that in the interests of the community land should be developed for a particular purpose or restricted to a particular use, it has in fact made a decision which may well affect the value of the land so far as the owner is concerned. If the land is subsequently sold then the value realised (assuming that the purchaser is both prudent and reasonable) will reflect the value of the land as affected by the decision. The owner has no recourse to appeal against the planning decision on the grounds that the value of his asset has been changed. In other words the owner of land is already affected by the planning decision whether he likes it or not. From this it would not appear to be unreasonable to tax him on the basis of a value conferred by a decision made in the name of the community which also collects the taxes for expenditure in the name of the community. This is the view taken in those countries which raise taxes on land-value assessments.

But before leaving this issue, there is another point to consider lest it should be thought that many unfortunate people in various parts of the world where site taxation exists are being forced to pay exorbitantly high taxes on assessed values which cannot be realised. The point here is that planning decisions affect the value of land only where they limit development at a level *below* which the market would otherwise consider appropriate. US experience shows that local authorities may zone land for say industrial purposes until they are blue in the face but the act of zoning will not in itself ensure development, and in many areas where land has been so zoned for many years, it is still bought and sold at existing use agricultural values because it is well known locally that no industrial development is foreseeable! This leads to another point. When a local property taxing jurisdiction changes its system from a land plus improvements assessment basis to a land value only basis, whether a tax-



payer's liability will change depends on what is known as the land: improvement value ratio. In any taxing jurisdiction there will be an average land:improvement value ratio. Let us suppose this is 1:2. What happens

when only site values are taxed? All those properties which are developed close to the average will pay a slightly lower level of taxes than they paid before. Those



with a high improvement: land ratio will pay less (i.e. the solitary block of flats in an area of predominantly single family houses) while those with a high land:improvement ratio (a storage shed on a vacant site next to a super-market) will pay more.

The facts of transitions made in other countries clearly show that there is nothing to fear in the way of penal taxation on values which are not realisable. This does not mean of course that there is never any personal hardship. There is always the case of the pensioner with low income living in inherited property with a large garden zoned for six town houses in an area of high demand. But such cases are relatively few in relation to the total of assessed parcels. And they can always be dealt with by alternative methods. Either the tax can be levied in full and the owner forced to sell and live in luxury for the rest of his days on another site, or provision can be made for the tax to be commuted as long as he lives and the sum outstanding made a charge against the eventual disposal of the estate. But this is an administrative issue and not an argument against the principle of land-based property taxes.

Let us now have a look at another argument against site-value taxes. It has been claimed that it is unreasonable to tax where there is no immediate income or where the tax is in excess of current income. Again, the owner can always dispose of the site, and in the last resort provision can be made for the local authority to purchase the site themselves. The basis of compensation can be assessed value. In some US States there are tax delinquency provisions which enable the local authority to resume the title if taxes are unpaid and to dispose of the property after a statutory period. This disposition may be at current market value, or, in the case of disposal to the former owner, upon payment of due taxes plus interest. Is such a procedure fair and equitable? It depends on one's personal point of view but if the community in its wisdom has decided that land should be used for one purpose rather than another and if that purpose is one for which there is economic demand and it can legitimately be claimed that the community is being deprived of both a more appropriate use and a higher income, then the process of democracy can be claimed to be at work, and special cases, it has been said, make bad law.

Now let us look at a planning viewpoint. It has been argued that site-value taxes are more relevant in developing countries where there is a clear need to stimulate investment. It has been further argued that in a densely

populated country such as Britain, there is a greater need for conservation and caution to guard against erosion of heritage assets. The fear is over-development. But this is a problem of population characteristics. If the population is increasing and cannot be controlled (even if that were thought to be desirable or practicable) the housing, recreational and economic needs of the country must be met. Indeed it can be argued that where resources are tight there is a greater need to use them judiciously. There is an even greater need to use them economically. This is what land-use planning is all about.

The taxation of site values has many real planning advantages. In the first place it encourages the use of what has been allocated for use. In the second place it tends to reduce speculation which is purely capricious. In the third place it tends to make land relatively dearer to hold (thus discouraging wasteful use) while at the same time making it cheaper to purchase where it has been allocated for use. All these things taken together add up to an attractive land-use planning fiscal tool. Land-based taxes can act as a spur to development in the right place at the right time—the very objectives of the Land Commission which were not and could not possibly be realised under its provisions and application.

It has been said by some that it is not the purpose of a system of local taxation to facilitate land-use planning. But again let us recall that most local authorities of any status are or will be planning authorities. Surely it is better to have a system of local taxation which has planning advantages rather than one which does not? Similarly let us not forget that local authorities themselves are substantial users of land and always need to purchase land for their ever-expanding functions. If the taxation of land will lessen their burden and that of their ratepayers both in terms of purchase price and substantial interest savings over many years, they should be quite happy on all counts!

It has been suggested that land registry records and published details of market transactions are not good enough for site-valuation purposes. These are administrative problems which can be overcome. All that is needed is the will to overcome them. Jamaica did it with only a handful of trained valuers. Secrecy in the land market is not more essential than it is in any other market, publicity is the safeguard against exploitation.



One more conceptual error is also worth thinking about because it strikes at the principle of land-based taxes. It has been argued that a site-value assessment of development potential assumes that the improvement

has been carried out. Therefore the tax on the improvement is prepaid. But this is not so in practice. Take the case of two otherwise identical detached houses on sites of similar size but differently located. The location value in one place is greater than in the other so assessed land values are different. The improvement value is the same. Now look at two vacant sites with different location values. There would be a difference in site tax—perhaps a substantial one—but in terms of building and marketing economics it could still make good sense to put exactly the same type of house on each site. In fact the market might indicate that it would be more appropriate to build a more expensive house on the cheaper site. Either way, the site-value tax would remain the same and would not be related to the cost of the subsequent improvement. If land only is being taxed, then there is no question of the tax having an impact on the improvement. The tax simply reflects the market price of the land as it would sell or rent to a willing purchaser or lessee. Furthermore, the point needs to be made that as the tax base would most probably be wider due to the inclusion of vacant sites, there would be an initial overall reduction in most taxpayers' contributions.

Sniping at Sacred Cows

FARMERS at a meeting in London last month listened to a few home truths about their industry. The speaker was Professor Dennis Britton of Wye College and he questioned a number of the myths, slogans and dogmas that have been current for a number of years. The title of his paper given to the Farmers' Club was "Agricultural Economists and Farmers—Friends or Foes?" For a start he did not accept the principle that "what is good for British agriculture is good for the nation," particularly as it related to Treasury subsidies.

The slogan "Why import it, we can grow it here," was also rejected. Few economists, he said, would accept that the greatest degree of self-sufficiency in food supplies was desirable policy, nor could they accept the notion that the British farmer should have the first claim to the British market which suggested that the farmers' interests were of necessity superior to those of the consumer.

Perhaps Professor Britton will next present a paper on how Britain's agricultural policy with its supports, guarantees, subsidies, grants, quotas, licences, etc., affects the separately, widely-differing and sometimes opposing interests of those in agriculture—invariably included under the single term "farmers."

These are, farm labourers, tenant farmers, owner occupiers, large scale business farmers, landlords and marketing boards.

The interests of the foregoing are far from identical and the overall description of "farmer" often conceals the true identity of the primary beneficiaries of agricultural policies,—the recipients of the economic rent of land.