

# a rate reformer off course . . . .

By P. R. HUDSON

"He is torn between two conflicting desires; the first to put land to effective use, and the second to penalise those who make the best use of it."



THERE is no shortage of proposed alternatives to the present rating system. Local income taxes, sales taxes, betting and gambling taxes, added value taxes and turnover taxes have all been suggested. In addition to these alternative forms of taxation, many modifications to the existing rating system have been put forward. Re-rating agricultural land, rating vacant sites, exempting residential properties, offering depreciation allowances are among those currently to be found.

Of all the proposals discussed, however, highest marks for sheer ingenuity must go to Mr. M. B. Middleton whose ideas, notable for their originality, were published last year in the *Local Government Chronicle*.

Mr. Middleton, former Treasurer of Tutbury Rural District Council is well versed in the problems of local government finance. His main criticism of the present rating system is that the determination of hypothetical rents leads to endless trials and tribulations. In Mr. Middleton's view, all attempts to levy rates based on subjective values lead to continual revision and corrections of anomalies. He therefore believes that it would be better for rates to be based on objective assessments that do not involve the services of trained valuation officers.

How would this be possible? Under Mr. Middleton's scheme, registers would be compiled showing all land units, their area, owners, occupiers, and the floor space of each structure. Each parcel would be assessed according to a "use zone" table for industrial, commercial, residential, agricultural, open space and sterile land. Each land use and each building type would be given a unit weighting factor, which would be fixed nationally. The rateable value would be the sum of the site area multiplied by the land use factor and the building floor area multiplied by the building type factor. In other words, similar sites and structures would all be assessed the same, irrespective of demand, age and location. Rates would be levied in the usual way and would be mandatory for all hereditaments, irrespective of whether they were used or not.

Mr. Middleton claims that such a system would be relatively easy to understand, that rate assessments would be put on an objective basis, that the number of appeals would be reduced, and that valuers could be assigned to more worthwhile work. In addition, development and maximum use of sites would be encouraged and property companies would find the system helpful.

As an administrative solution to today's rating difficulties this system has some merit. Its ingenuity lies in its simplicity of application. There is no doubt that such a system could be made to work, but would a local tax structure of this sort stand up to the classical tests for taxation? Those who are familiar with the subject of property taxation know that the land- or site-value rate is the only taxation measure that fully meets these criteria. Where does Mr. Middleton go wrong?

To find the starting point of real estate taxation it is necessary to go a long way back in history. As far as Britain is concerned the earliest payments of "Dane-geld"—protection money to ward off viking raiders—established a principle which led to "heregeld," a local land tax to provide funds for special defence troops. Following the Norman Conquest and the Domesday Survey, the land tax provided all national revenue. Thus arising from Danish determination to maintain land in small holdings, and to levy no tax except the long accepted homeland duties on land rent, British property taxation from its earliest times was built upon social justice and economic wisdom.

The Danes clearly recognised the basic difference between articles produced by human endeavour and the bounties that arose according to the varying quality of the soil. Moreover, in bringing their traditional system of taxation to this country, they demonstrated how land taxes tend to ensure the best use of resources and deter indifferent management. It can be seen that the ancient system of land taxation, which was gradually eroded by political expediency over a period of nine hundred years, recognised the unique importance of land in the economy and its relationship to wealth earning ability.

The departure from these principles of enlightened husbandry to the complex system of contemporary taxation has been criticised by many historians, economists and sociologists as a retrograde step bringing in its wake a host of new problems. Once the principle had been sacrificed it became progressively easier to transfer tax burdens to indirect or personal bases. From the seventeenth century onwards the division between local and national taxation became more marked and, as an unsatisfactory compromise, the rating system emerged as an annual tax based on the value of existing accommodation in beneficial use. In many respects Mr. Middleton's novel

proposals are but the administrative rationalisation of an unfortunate system.

In his search for equity in assessment procedure, Mr. Middleton fails to acknowledge the fact that land is not of uniform value. The differences in value between sites of similar size in different locations are very significant in economic terms. These differences in value among sites affect nearly every investment decision that is made, and, but for the monopolistic character of private land ownership, would serve a most useful function in the proper distribution of capital and labour.

Mr. Middleton must surely know that any tax on a man-made asset must reduce the profitability of investment and discourage improvement. Under his system a building of X square feet on a site of Y acres would be assessed at less than a building in the same use of X + 1000 square feet. Such a system clearly imposes a penalty on renewal and upgrading. A valuable city centre site with a hut on it would thus be assessed at less than its well developed neighbour endowed with a ten-storey structure. By giving all land in similar use an equal weighting factor, the rating assessment for an industrial site in inner London would be no greater than that of a site in a new town sixty miles away, and if the London site had a poor building on it, its assessment would possibly be lower than its newly developed country counterpart.

Mr. Middleton is to be applauded for wishing to rate agricultural land and vacant urban sites, but his desire to penalise improvements is short-sighted. While a developer would to some extent be encouraged to put a building on a vacant site, he would immediately be penalised for doing so. This is exactly what happens in California, where there is a growing movement afoot to increase tax rates on land and decrease them on buildings. Under the Australian system of land taxation, however, such problems do not occur. The vacant site owner knows that no improvement to a property will increase his liability for taxation.

Fortunately Mr. Middleton's system is not likely to win much support from rating valuation officers who would be rendered extinct by it.

Mr. Middleton might well reflect on the fact that in Denmark the land-value taxation system leads to less than 0.01 per cent. appeals. The availability of land valuation maps for public inspection makes the system perfectly comprehensible to the ratepayer.

Site-value rating, with periodic revaluations, is the only local government tax measure that can effectively ensure that land is put to its optimum use and that development is not penalised. It has the added advantage of making valuable sites cheaper to buy but dearer to hold.

Mr. Middleton, it seems, is torn between two conflicting desires; the first to put land to effective use, and the second to penalise those who make the best use of it. Administrative simplicity is no substitute for economic rationality. The Danes could have opted for a poll tax, but they stuck to land-value taxes.



## A Dream of the Future?

By PETER TRACEY

**W**ALL NEWSPAPERS are not confined to Communist China. Our Department of Economic Affairs has its own version, and the same Red Guard-type mentality is obviously behind it.

Called *Upswing*, it is a double-page glossy sheet, printed in two colours, and designed to be pinned to works notice-boards, presumably for the benefit and encouragement of employees.

One can just imagine the ardent British worker, avid for the latest facts and figures on everything he holds so dear, dropping his tools with unsuppressed excitement, and rushing regardless of hunger, heedless of his lunch time break to be first at the board when the siren sounds.

"What does it say?"

"Read it out to us."

The plaintive voices of his fellow workers reach him over the heads of the milling throng, pushing and shoving, surrounding the notice board for yards around.

"I can't see. Tell me what it says!"

"Quiet!" he calls with forced control. "Exports Forge Ahead!"

"Hurrah!" roars the crowd, drowning the voice of their speaker. He struggles to explain that by selling more and more goods overseas, industry is doing more and more to get Britain out of the red. "The dark clouds which rolled across the economic scene last July are now beginning to lighten," he reads, "and there are even patches of blue sky!"

"Hurrah!" roars the crowd again, but not quite so loudly as before. Emotion is taking its toll. Eyes are moist. Throats with a lump in them can hardly "hurrah" very loudly; but some handkerchiefs are waved.

"Exports of heating and cooling plant went up 24 per cent; scientific instruments 13 per cent; tractors 11 per cent" reads our hero.

"Well done lads!" breaks in the shop steward. "Well done! Where would Britain be without you? Twenty-four per cent indeed, twenty-four per cent!"

He moves quietly away, as in a dream. "Twenty-four per cent," he keeps muttering to himself, "twenty-four per cent . . ."

Our reader carries on: "We badly need to keep the export boom going. We *should* be able to do it."

The crowd begins to thin a little. One by one the dazed but happy workers drift away to the canteen, pride and satisfaction welling up within them. If they can only put in just that extra effort this afternoon, why, it might even be twenty-five per cent next time!