The Green Paper: Text of the Section on Site-value Rating

(From the Government's *The Future Shape of Local Government Finance*)

*** The rating of site values is another means sometimes proposed for increasing the yield of rates. Rates are a tax on the occupation of land and buildings and are charged on the rental value of property as it exists. With site-value rating, on the other hand, rates would be levied on the market rental of the site, on the assumption that it was available for the most profitable permissible development. Since the beginning of this century the question of site-value rating has been considered by a number of official committees and commissions, and on every occasion the majority have come down against it. The most recent of these was the Erskine Simes Committee, which was appointed in 1947 and reported in 1952.

*** The main arguments put forward in favour of site-value rating are that the economic rent of the site is created not by the owner but by the community, so that it is right for the community to recover a share of this value by taxing it; that the rating of site values would encourage owners of land to bring it forward for development more speedily; and that, unlike the present system, site-value rating would not tax—and hence discourage—improvements.

*** Against the first of these arguments it may be pointed out that capital gains tax may be paid on the development value of the land when it is sold, and the Government have recently, when abolishing the Land Commission, made it known that in their view this is the appropriate way for the community to share development value. The second argument perhaps has more force in relation to underdeveloped countries than in relation to Britain, where the need is to channel and organise development in the best possible way, rather than simply to encourage it. The third argument has some validity in the sense that minor improvements such as the addition of central heating to a house, would not, under site-value rating involve an increased assessment. But because site value-rating assumes the land to be subject to maximum permitted development regardless of the extent to which it has actually been developed it thus taxes before they have occurred categories of development which under the existing system would only result in increased assessments after they had occurred.

*** The arguments against the rating of site values are partly objections of principle. First, it would tax not the current income or resources of the taxpayer, but instead his prospective and potential resources. In this it would exaggerate yet further what many regard as the main failing of rates—that they are inadequately related to the taxpayer's capacity to pay.

*** Second, it would tax land values not only before they were realised but often when it would be quite impracticable to realise them—for example, where there were several interests in the land and none of the individual owners could redevelop because he could not acquire the other interests. Or, again, a site could be taxed for several years on a high development value that might then be lost through a change in planning proposals, or for some other reason, before the ratepayer had realised any part of it.

*** Third, site-value rates would have to fall on the owners of the land, because they rather than the occupiers benefit from development value. It would, for instance, be unfair—indeed impracticable—to tax the occupier of a slum dwelling on the possibly high development value of the land on which his dwelling was situated. Thus the link between local taxation and local representation, which is an important aspect of any local tax, would be much weakened.

*** There would also be practical difficulties. First, a pilot survey carried out in Whitstable in 1963 by the Rating and Valuation Association indicated that site-value rating could price amenities out of existence. Under the rules adopted for that study, rates on the local golf course, for example, would have increased seventy-fold. Second, there seems little doubt that the problems of valuation, and therefore the scope for grievance and litigation, would be greater and more extensive than with the present basis of a free market rental, because of the scarcity of evidence of site values and because it would be more difficult to reconcile differences of opinion about values in the absence of a corpus of decisions from the Courts. Third, owners of land are less easily identified than occupiers, and collection and recovery would be more difficult. Finally, there would have to be frequent changes in valuations to keep up with changes in the planning situation.

*** It is sometimes argued that site value rating works satisfactorily in other countries, but the circumstances are dissimilar. In particular, as the Erksine Simes Committee recognised, site value rating is inconsistent with the system of planning control existing in this country since 1947, under which planning permission for development can be refused without payment of compensation and, in consequence, the market value of land depends very largely on the precise details of the planning permissions which may have been granted.

THE LIE REPEATED

"The Green Paper" says *The Economist* July 31 "concentrates on ways of improving the rating system. Here too, some red herrings are swept aside, such as site-value rating (which would, as a minor side effect, eliminate golf courses from the face of Britain.)"