

## LAND VALUE RATING IN JOHANNESBURG

### Endorsed by the Chamber of Commerce

Local Taxation in the Transvaal has been under examination by the Transvaal Rating Commission appointed in 1948. Giving evidence before this body, the Johannesburg Chamber of Commerce "supports the site rating system in preference to either the flat rate system or the differential rate system, under both of which systems rates are levied upon the value of improvements as well as upon that of land." In explanation of the terms here used: "site rate" means the basing of rates on land values only; "differential rate" means the levy of a lower rate upon buildings than upon land values; "flat rate" means the levy of rates on land and buildings taken together without distinction so that both are taxed at the same rate.

The Chamber of Commerce, in support of its view, refers to the majority report of the 1944 Enquiry Committee appointed by the Johannesburg City Council which declared that "the system of rating on site values is the fairest."

But before quoting further we think it will be helpful to describe briefly the progress that has been made in the Transvaal and in South Africa generally towards reforming the local taxation system which, making no distinction between land and buildings, throws the burden indiscriminately on both.

In the Transvaal the reform started with the Ordinance of 1916. By this, local authorities were required to levy some part on the value of the land alone, apart from buildings; and they were given the option to carry this process further to the point of making the land value of each property the sole basis of rating and thus exempting buildings altogether. The law for effecting these changes was consolidated in the Ordinance No. 20 of 1933 and under it the principle of transferring rates upon land values so as to reduce or to remit local taxation upon buildings has been universally applied in the Transvaal. Johannesburg is among the authorities where the municipal revenue, so far as it is derived from real estate, is obtained by rating land values only, and for the past thirty years no rates have been levied on the buildings or improvements on any land. In other South African provinces the legislatures have given local authorities optional powers to transfer rates upon land values correspondingly relieving buildings. Many places in Natal and the Orange Free State have taken advantage of them, so as at least to halve the rate on buildings and at least to double the rate levied on the value of the land. In East London and Kimberley in Cape Province these powers are used; in East London to the extent that the land-value rate is now 1s. 3d. in the £ of the assessed selling value of the land (i.e., the land alone) whereas the rate on buildings is ¾d. in the £.

#### The Chamber of Commerce Report

Following are passages from the submission which the Chamber of Commerce has now made to the Transvaal Rating Commission of 1948:—

Par. 2. For reasons given in the report (of the City Council's Committee of Enquiry), the Chamber (of Commerce) believes that the site rating system affords greater recognition to the principle of taxation in proportion to ability to pay than does any other rating system. By way of supplementing the enclosed report, it may be pointed out that the ratio between value of improvements

and site value is, in Johannesburg, lowest among properties within a radius of one mile from the City Hall, where it averages 0.7 to 1. The ratio increases with increasing distance from the City Hall: it is 1.8 to 1 between the one- and two-mile radii, and 1.85 to 1 in the rest of the municipal area, with an overall average for the whole area of 1.3 to 1. This means, of course, that the central area bears, in proportion to its total valuation, a higher share of the rates than the suburbs. During the first half of 1948, 52 per cent. of the total revenue from rates was collected in a radius of one mile from the City Hall, and 61 per cent. within a radius of two miles. Had a flat rate basis been adopted, yielding the same total revenue, the comparable percentages would have been only 39 and 50, respectively. When, in addition to these facts, it is borne in mind that no less than 45.83 per cent. of the estimated expenditure on Rate Fund Account in the year ending 30th June, 1949, will be devoted to public health and social welfare (see Budget speech by the Chairman of the Finance Committee on 14th June, 1948), it will be clear that the existing site rating system is by far the most satisfactory from the point of view of any who regard the "ability to pay" principle, or the principle of progressive taxation, as one of the main "norms" or criteria of taxation policy.

Par. 3. In general, the Chamber favours taxation of Site Values because:—

- (a) It discourages sites being held vacant or under-developed.
- (b) As improvements are not taxed, the owner of the site is encouraged to expend more capital and thus construct a better or more commodious building than he would do, if improvements were subject to taxation.
- (c) The property of the lower income groups contributes much less proportionally to the Fund for which Assessment Rates are used, than the wealthier members of the community.
- (d) The transfer to improvements of any portion of the rate levied on site value, no matter how small, would increase the amount payable by the lower income groups, and reduce that payable by others.
- (e) It is impossible to devise a system of taxation which would ensure that each ratepayer would benefit in proportion to the amount he contributes to the Assessment Rate Fund. Charges for direct services such as water, light, sewerage, rubbish removal are made against each individual ratepayer, but the Assessment Rate Fund is expended for the general benefit of the community.

Par. 4. Since the site rating system operates successfully in Johannesburg under the existing Ordinance, the Chamber sees no reason why those sections of the Ordinance dealing with the actual levying of rates require amendment.

Par. 5. Over-centralisation of administrative functions invariably results in delays and general decline of efficiency; and, since it is important that valuation rolls should be as up-to-date as possible, the Chamber opposes the suggestion that a Provincial Valuation Department should be established. It is understood that public opinion

in the Cape Province is moving against the centralisation of valuation for the very reasons indicated above.

Par. 6. In regard to the system of valuation at present operative in this Province, the Chamber has no objection to the appointment of a valuer by the municipality, but is of the opinion that a panel of three professional advisers—sworn appraisers—should also be appointed by the Municipality, to be called upon by the valuer for advice when necessary.

Par. 7. It is generally agreed that no governmental authority should have power to act as judge in an issue to which it is a party; such practices represent the worst form of administrative jurisdiction. For this reason, the Chamber would recommend the amendment of Section 13 of the Ordinance in such a way as to prescribe that the Valuation Court should be composed of an advocate as President, with not less than two other members, who should be sworn appraisers, and that it should not be competent for any member of the municipal council to serve as a member of this Court.

### Observations

It is interesting to observe what is said about the principle of "ability to pay," which is generally applied in a quite different context; that is to say, to *individuals* as a measure of what their contribution should be to the public revenue. The "ability to pay" in the latter connection is a wholly false standard in contrast with the canon which establishes benefits received or advantages enjoyed as the just standard. But here the "ability to pay" refers to the *land* as a subject of taxation, and with perfect reason declares that the land value is a proper measure, bearing in mind also the important factor of the varying relationship between the value of land and the value of improvements from site to site. How this relationship varies is well illustrated and the same thing is revealed wherever the separate valuation of land is made.

The memorandum is, however, not so clear in its reference to the payments made by "lower income groups" as compared with others. The question of "income groups" does not arise. We are dealing only with the variation of land value. There might quite well be people in "higher income groups," as individuals, who own properties in the suburban areas and they would pay less in rates levied on land values than when rates are levied on both land and buildings. Moreover, it is not inconceivable that there will be people in "lower income groups" who share ownership in property at the centre where the rates, when levied on land values are higher than when they are levied on land and buildings taken together. Clearly, the principle throughout is that land value is taken as the measure—that value which rightly belongs to the community, whether the owner is a "rich man" or a "poor man," and the community is not entitled to take more than the land value in each case.

It is interesting also to observe the attitude to the question of valuation. The Chamber of Commerce maintains that this is best done by a municipal department. That may be peculiar to circumstances as they are in the Transvaal to-day, where there is not yet any provincial or dominion land value tax. But in Australia the sentiment is strongly in favour of establishing State valuation departments as has already been set up in New South Wales, since locally-made valuations have been found to be open to much criticism. In New Zealand all valuations of land value are made by the Dominion valuation department; and in Denmark, where methods and procedure

are a model for all countries, the valuations are in charge of a central department.

The Chamber of Commerce lays down excellent rules against the danger of the tax collectors, as such, having an influence upon the valuation which sets the standard of the taxes they impose. These two functions, valuation and tax collection, should always be kept strictly apart.

The report of the City Council's Committee of Enquiry above referred to was printed, together with much of the evidence of witnesses, in *LAND & LIBERTY* of October, 1945, and November, 1945. The Committee was headed by Mr. Leslie V. Hurd, ex-President of the South African Institute of Estate Agents and Auctioneers.

A comprehensive statement on the operation of the land value policy in a number of countries, including South Africa, was given in the Supplement to *LAND & LIBERTY*, June, 1948, which has since been printed in pamphlet form and copies are available on request.

## LIBERALS AND LABOURITES AND LAND VALUES

THE *Lambeth Borough News*, January 21st, reported the session of the Lambeth Model Parliament, the Liberals having come to power. Labour member, Mr. Bernard Gates, introduced a motion, which was carried without a division, to nationalise the land and abolish ground rents. Many took part in the debate. Miss Enid Lakeman (Liberal) said that, *while agreeing in principle with the motion* (italics are ours), she could not understand the failure of the Labour Government to reintroduce a Bill originally sponsored by the L.C.C., which had been defeated by a former Conservative Government. Dealing thoroughly with the "dilemma" of compensation, Miss Lakeman argued the case for the taxation of site values, in which she was ably supported by Mr. G. Hewson (Liberal) and Mr. H. Knorpel (Liberal).

Sequel was the following letter by Mr. E. G. Popplewell, appearing in the *Lambeth Borough News* of January 28th:—

"... I was surprised to find that the Liberal members of the Lambeth Model Parliament did not divide the House on the motion that the land should be nationalised and ground rents abolished, and yet argued in favour of the taxation of site values. For the one proposal is the very antithesis of the other; the former giving rise to difficulties which only a Communist régime could tackle, while the latter would absolutely vindicate the free economy.

"In any case it is impossible to 'abolish ground rents,' for the simple reason that one cannot abolish the superiority of one piece of land over another, in terms of position or fertility. The Soviet Government found this out and they make clumsy attempts to rectify this by tax variations. Those areas giving up a greater proportion of produce are, in effect, paying rent.

"Further, the Labour Party, if it should decide to nationalise the land, would, beyond all doubt, compensate land-owners. That is Fabian doctrine. Compensation would, of course, be simply capitalised rent.

"The taxation of land values as proposed by Henry George and others is the only sound and just solution to the land problem. The sooner the Liberal Party understands the implications of this measure, the sooner will they be able fearlessly to proclaim the virtues of the free