

MORE QUESTIONS ANSWERED

(On Site-Value Rating)

The majority report of the Royal Commission on Local Taxation, published in 1914, considered that valuing sites only for rating was not really practicable, would be accompanied with considerable uncertainty, complications and expense, would be highly speculative, and that a large number of bills and attendant expenses would be inevitable.

The two Whitstable valuations, which were not uncertain, complicated or expensive, show this not to be true. Also, the fact that SVR is the predominant rating system in Australia and New Zealand, and that land valuations are regularly made in Denmark, for rating and taxation purposes, proves that a site only valuation is practicable. In these countries the valuation is not accompanied by large numbers of bills and attendant expenses.

The experience of countries using site-value rating shows that it is not easy to clear the valuation of elements due to the enterprise of the farmer or to the existence of man-made assets, such as orchards and drainage works. Once the complications of urban uses are taken into account such difficulties are greatly intensified.

Separating the value of land from that of improvements is actually easier on urban land than on agricultural land because on urban land there is no difficulty in deciding what is improvement and what is not. The "complications of urban uses" should not affect the valuation. The value of a site is not determined by the use to which it is put, but the use to which it can be (permissibly) put. This use depends upon the planning regulations, but is basically commercial, residential, industrial or open space.

What is the site value of a freehold fifth-storey flat?

The whole site of the block of flats would be valued as one unit and this value apportioned amongst the holders of the flats, having due regard to the additional value or otherwise of being on the ground or top floor.

How would one value non-conforming uses? If an industrial site is in an area designated as residential, would it be valued on an industrial or residential basis?

The land would be assessed at its market value. If, on sale of the business, the use of the site had to be changed to residential, the market value is for residential use, and it would be assessed as such. The industrialist would benefit from this while he remained in that location (assuming industrial land to be worth more than residential) but might incur extra

expense if he was to sell that site and transfer his business to industrial zoned land elsewhere.

Occasionally, in the big cities, bare sites change hands but for the most part sites change hands in this country as developed, and it is impossible with certainty to separate the value of the site from the value of the building thereon.

Again, the two valuations of Whitstable disprove this assertion. Mr. Wilks found considerable evidence of transactions in bare land. Where there was no direct evidence he was able to compute site values from recent lettings by various methods detailed in his report.

All the foreign countries in which site-value rating is employed are newly urbanised. Bare sites have changed hands as a common commodity and there is plenty of evidence of site values. But I know of no older country where site-value rating is working, for the reason that no-one is prepared to try it where there is no evidence of site values.

It is no accident that site-value rating is found in "newly urbanised" countries. In Australia and New Zealand, and also in the USA where idle sites are rated, the new residents, starting from scratch, were determined to avoid the shortcomings of the English rating system which penalised development and improvement. They therefore levied rates on land values only, or at least assessed and rated land separately from buildings.

However, there is one older country, Denmark, where site-value rating has been in use for fifty years and presents no undue problems of valuation or administration. The supposed scarcity of evidence of land values has been dealt with elsewhere.

Vacant sites may easily be taxed by other means than a site-value rate.

If by "other means" betterment taxes or development charges are meant, it should be obvious by now that such "land taxes" are nothing of the kind but rather taxes on development and fall pretty much with the same effect as do our present rate charges. *Any advantages to be derived from SVR could be obtained in large measure with other methods of rating.*

This loose statement suffers from the defect of being non-specific. Any form of rating of buildings has the opposite effect to that of rating of site values. It is difficult to see how such fundamentally different systems could provide the same advantages.

SVR taxes the development value of land, and it would be desirable to tax gains resulting from community development, but this could equally be achieved by a rate based on the capital value of both land and improvements or by a capital gains tax.

It is not the sole purpose of site-value rating to tax development values, although they would be included in any valuation if realisable. Even so, when the object is to exempt buildings and tax only site values this can hardly be achieved by taxing both.

A rate on the capital value of both land and improvements is simply the present rating system on a capital rather than an annual basis. A feature of this system is that a poor building on a valuable site, valued together, has a lower value than a good building on the same site, valued together. Thus the real value of the site is not necessarily reflected in the assessment, and a rate on land and improvements would not therefore necessarily tax gains resulting from community development (i.e. increased land values).

A capital gains tax would collect a proportion of any increase in land value only if the land were sold. It would not collect any of the annual value enjoyed by the owner or occupier while the property did not change hands or remained undeveloped.

The imposition of some form of tax on undeveloped land might tend to retard the rise in land values, and might make it unprofitable for land owners to hold on to land for speculative reasons. However, these results could be achieved by other means, and it would not be desirable to introduce a defective system of taxation in order to achieve these objects.

This statement begs the question. SVR has not been shown to be "a defective system of taxation." It is far less defective than the present rating system, or any form of land or capital gains taxation so far tried in this country. Again, no details are given of the "other means," and again we have SVR represented as solely a weapon against speculation in land as though its other major purposes did not exist.

The best way to recoup increased land values for the community is by means of a heavy tax when the land is sold.

Taxes on the sale of land - for example the betterment levy introduced in 1967 - always have the effect of discouraging land sales. If no levy is made until property changes hands, many properties will never be sold. Slums, poor development and idle sites will remain and stagnation in the property market will eventually contribute to stagnation in the economy as a whole. Even if such betterment levies worked - which experience has shown they do not - site-value rating is not designed to recoup merely the *increases* in land value but existing values as well.

Agricultural land is exempt from rating under the present system and would need to be exempt under SVR as well.

Agricultural land was exempted from rates in 1929. At the same time industry was 75 per cent derated. In 1963 industrial derating was ended and there is no valid reason why agriculture should continue to be exempt from rates. The exemption from rates has never benefited the farmers, as farmers, for in the same year that the exemption was applied, agricultural rents (and thus also selling prices) rose in consequence, and the whole benefit was passed to the land owners.

Farm dwelling houses and any other buildings rateable under the present system would of course be free of rates under SVR.

SVR would force small farmers and marginal farmers out of business.

If the land of such farmers was of poor quality it would have a low assessment, and low rates would be paid. If the farmer were a tenant, his landlord would pay the rates, unless the assessed annual value of the land was greater than that portion of the gross rent paid that represented unimproved land value, in which case the tenant would pay a part.

If the farmer was the freeholder, and he could not afford the site-value rate, he would be in no different position to that of any businessman today who cannot afford his rates - probably his holding is not economic. *If farmland were liable to site-value rate, agricultural subsidies would have to be increased.*

This would defeat its own object. The effect of subsidies to farmers is to raise the price of farm land. If subsidies were increased, to cover the site-value rate, land values would increase, assessments would have to be raised, and the farmer would have to pay more rates. Even if this were not so, farmers have no justifiable right to the privilege of a rate subsidy which would be at the expense of other ratepayers.

To tax agricultural land is to tax an improved value not the bare land value itself, since broadly speaking, the value of agricultural land is due to nothing but its improvement throughout the years.

This is not so. The value of a farm is as much due to location, with all the advantages this may offer, as it is to fertility. Lowland agricultural land is naturally fertile, and cultivation merely *maintains* that fertility. As for physical improvements to the land, these would be exempt. (See next item.)

In valuing agricultural land, one cannot separate "original" land value from improvement value.

One can if the improvements are recent and are evident. Long-standing improvements can be considered as having merged into the "original" land value.