

**B**ARBADOS, Commonwealth island in the Caribbean sun, has had a simple land tax since the first settlers arrived from England. Records for 1750 show that the tax, in some parishes, was then half-a-crown an acre.<sup>1</sup>

A dramatic change took place in the 1970s when the government decided to switch to a land-value tax. They needed it to finance services such as sanitation, cemeteries, health and hospitals which had become the responsibility of the central government in 1969.<sup>2</sup>

During 1971-72 valuations were made of every parcel of land on the island. Perhaps ominously, the Commissioner of Valuations was empowered to assess "improved values" as well as site values although, in the initial stages, this discretion was not exercised. By 1973 the valuation work was complete and a tax of one per cent of capital site value was levied. Revaluations were planned for every three years.

In 1975 came a depressing U-turn. The government decided to change the tax base from site values to improved values.

In Barbados, the improved value of a site is the composite capital value of its land and buildings provided the latter exceeds \$B10,000. Where the buildings are worth less than \$B10,000 they are ignored and only the site value is assessed.

In 1975 sites with improved values were taxed at 0.5 per cent, yielding \$B5.2m. Properties assessed for site value only were taxed at 1.25 per cent, yielding \$B4.5m.

In 1979 new, multiple, rates were

**F**OR SOME very strange reason, most states in the Caribbean Community and Common Market (CARICOM) appear to have agreed to ignore the considerable potential of property taxation as a source of revenue and an instrument of fiscal policy for development.<sup>1</sup>

This charge was made by Mr. Fitz Francis, the UN adviser on tax policy in the Caribbean area, when the finance and taxation experts of the Community met for a conference on property taxation.

Although the announced purpose of the conference was to compare notes on the various systems of property tax in use in the member states, there was an underlying polarisation of viewpoints on the lines of Property Tax versus Income Tax. Appropriately the conference was held on St. Kitts, a CARICOM member which recently made its position plain by doing for itself what

## CARICOM Conference

# Catch-as-catch-can on calypso island . . .

## Reports by Bert Brookes

introduced: 1.25 per cent on site values up to 50,000 dollars, two per cent thereafter; 0.5 per cent on improved values up to 250,000 dollars, one per cent thereafter.

The effect of the 1975 retreat from pure land-value taxation to a catch-as-catch-can property tax was to benefit the owners of high-value land at the expense of owners of high-value buildings. Before the change, for example, a farm with land worth \$500,000 and improvements worth \$50,000 would have paid \$5,000 in tax, ie one per cent of \$500,000. After the change it paid 0.5 per cent of \$550,000, ie \$2,750, little more than half the previous tax. Conversely, a houseowner with a plot worth \$10,000 and a building worth \$40,000 found his tax increased by 150 per cent - from \$100 (one per cent of \$10,000) to \$250 (0.5 per cent of \$50,000).

This loading of the scales against owners of valuable buildings has been compounded by a dubious system of rebates and reliefs. Rebates are allowed on land used for agriculture or for the construction of houses and apartment blocks. Reliefs are allowed where land is used for an economically lower purpose than had been assumed in the valuation, eg. where a single house still occupies a plot valued for use as the site of a hotel or office block.

Why did Barbados, in 1975, move from the firm ground of an even-handed land-value tax into the present morass of land-cum-building taxation linked with a hotch-potch of arbitrary reliefs and rebates?

Mr. C. P. Thompson, the present Deputy Commissioner of Valuations, recalls three main reasons. First, while land-value taxation was recognised as an incentive to develop vacant and under-used land, it was felt that the tax could not, of itself, "have any impelling effect on development unless finance is available for such development." On the other hand, so the reasoning went, the carrying out of improvements to land "is evidence of access to the limited financial resources" which might not be available to other owners. Thirdly, the government seem to have been attracted by the apparent lowering of the tax on improved values without sacrificing any revenue.

Reasoning as shallow as this places a big question mark against the government's real intentions. Does it really want owners to put their land to its proper economic use for the benefit of the whole community? If so, it

## UN adviser urges switch away from income taxes

Gladstone, for all his powerful efforts, failed to do for the United Kingdom: it abolished personal income tax altogether.<sup>2</sup>

Mr. Francis quickly made it clear where he stood. CARICOM nations were currently engaged in a struggle to raise adequate revenues. At the same time they were under considerable pressure to reduce the severity of their income taxes which now reached down to income groups never intended to be caught by such a tax. In these circumstances the "complacency" of the CARICOM states and their "continued failure" to turn seriously to property taxes was difficult to understand. Mr. Francis revealed that only one CARICOM

state - Montserrat - consistently derived over five per cent of its revenues from property taxation; the typical proportion raised by other members was under one per cent.

He argued that, with property prices high, now was an appropriate time to switch the emphasis from income tax to property. In the general absence of capital gains taxation it was now possible for property owners to live off their capital without making any contribution to national revenues. This placed the burden of taxation on incomes and especially on those who are actively engaged in economic activity, despite the fact that the property owners might be just as well off or even better off.

# THE CAT'S CRADLE

THE TINY island of Montserrat (39 sq. miles, 15,000 population) has received a special accolade from Mr. Fitz Francis, the UN adviser on tax policy in the Caribbean. Montserrat, he says with satisfaction, raises a bigger proportion of its revenues from property taxes than any other CARICOM state.

Montserrat has told the other members of the Community how, between 1964 and 1980, its property tax revenues grew by an astronomical 7,000 per cent, much of it coming from land values.\*

It all started in 1965 when the island government abolished its 40-year-old taxes on homes and on agricultural land acreages and brought in a new property tax. Although this dragged all buildings and other improvements into the tax net, it made one big step forward: it taxed all land at its value, irrespective of use or size.

In 1967 these arrangements were improved so as to raise a larger proportion of the revenue from site values and less from buildings.

But in 1971 these moves in the right direction suffered a set-back. The government introduced modifications designed, as they saw it, to take account of owners' "ability to pay." A smaller rate of tax (then five per cent) was charged on the first \$500 of taxable (i.e. approximately annual) value, ten per cent on the remainder. The general effect of this was to switch more of the tax burden onto the owners of high-value buildings.

The property tax machinery is also riddled with reliefs and rebates which gain few marks for equity.

surely follows that those owners who do not have the resources or the will to develop their land should dispose of some of their holdings to make way for those who have. To blunt the edge of the tax over the whole field of its operations, as has been done, is to put the narrow interests of certain owners before those of Barbados as a whole.

And what strange logic is it that says that when an owner, at his own expense, is developing his land, it is right and just to saddle him with

Finally, Mr. Francis saw the property tax as a valuable instrument of economic policy. Its increased use would enable the authorities to regulate land use, reduce the "wanton waste of land resources," control the growth in land prices, reduce the swallowing up of land by absentee landlords and, not the least important, enable governments to recover at least some of the costs they had incurred in financing state development projects.

**MR. SIMEON DANIEL**, St. Kitts Minister of Finance, spoke of the background to his government's abolition of personal income tax.

Income tax, he said, was difficult to administer fairly. The employee on a fixed salary would generally report his full income, but who could check effectively the assessments of the self-

employed, the professionals and tradesmen?

No government reasonably informed on the economic powers of land-value taxation can possibly be satisfied with the situation that now obtains in Barbados. As a developing society needing to move on from its traditional dependence on sugar production, the island desperately needs the fillip to industrial enterprise and growth that a pure land-value tax can provide. But in Barbados the tax

employed, the professionals and tradesmen?

He saw property taxes as playing a progressively important role in CARICOM countries as property ownership increased. In maintaining their properties, owners fully expected to meet charges such as mortgage payments, insurances, and bills for repairs, electricity, water and telephones. But there were other services – those provided by the government, such as roads, garbage collection and police protection – the cost of which could not be individually apportioned; they could only be paid for by an equitable property tax.

**THE CONFERENCE** agreed to recommend to governments that comprehensive systems of property taxation should be introduced. It was plain, however, that the distinction between the two separate elements of property – land

Agricultural land, for example, is assessed at a lower figure than would apply if the land were used for industry. Residential property also qualifies for a discount.

Compared with other countries, within CARICOM and elsewhere, Montserrat can take much satisfaction from its property tax. It has proved itself an effective revenue-raiser and, among other things, has forced into economic use large tracts of land which had previously been regarded as "wasteland."

As their CARICOM conference paper records: "In many cases, landowners, realising that it was no longer advantageous to hold land until such time as a substantial capital gain could be obtained, because of the punitive land tax, were forced to dispose of part of their holdings. This disposition often resulted in a general upsurge in the overall economy and served to effectuate a distribution in land wealth."

But the government now needs to do two things. First, it must remove the tax completely from buildings. As they recognised in 1967, it is site values which benefit from environmental developments made by the community, not building values, which are created by their owners.

Secondly, the government should rid its mind of the concern for owners' "ability to pay." If the tax is to do its job encouraging owners to put their land to its proper economic use it must operate with clinical impartiality. To entangle the tax in a cat's cradle of rebates, reliefs and differential rates – whatever the good intentions – is to sabotage an incomparable economic tool.

\* *Taxation of Land and Buildings in Montserrat*, a paper to the CARICOM conference on Property Taxation, November, 1980.

has to operate like a champion boxer with his feet in shackles and one arm tied behind his back. The island government has a duty to remove the chains at the earliest possible moment.

## REFERENCES

1. 'The Property Tax System of Barbados', by C. P. Thompson, Deputy Commissioner of Valuations, Barbados.
2. 'The Use and Application of the Modified Site Value as a Base for Property Tax – Barbados', by K. C. Pile, Collector of Taxes, Barbados.

and buildings – had not been fully understood by delegates.

Taxes on buildings do not produce the beneficial effects relating to land use seen by Mr. Francis. They slow all development and penalise the owner.

Taxes on site values, however, have all the attributes that the UN expert praised so highly. Moreover, they fall on the element of property which benefits from the community-provided services mentioned by Mr. Daniel. Indeed, the whole of the site value is created by the community and it is this which the state has a right – and a duty – to tax.

## REFERENCES

1. Measures for Improving the Effectiveness of the Property Tax as a Fiscal Instrument, by F. A. Francis, (para. 2).
2. Feature Address by The Honourable Simeon Daniel, St. Kitts Minister of Finance, at the CARICOM meeting on Property Taxation, November, 1980.