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BREAKDOWN OF LOCAL TAXATION AND WHY

From the counties, the boroughs and the county districts all over the country, come reports of stiff increases in local taxation. There is a general outcry against the higher rates that the local authorities find it necessary to impose. With rising costs expenditure mounts despite every effort to economise. The upkeep of streets and roads, the maintenance and improvement of the amenities of town or district, in short the many duties and services that relate to the true functions of local government are being starved and imperilled because the local authorities are required to undertake so much else. They are committed to vast outlays on public education. They are pressed to push on with their housing schemes and the losses they incur by having to let houses at subsidized uneconomic rents become a more and more costly item in their accounts. They have to spend largely on the services that are bound up with the Welfare State, in that respect playing their part as mere agents in a grand charity organization society. Last, but not least, they are heavily in debt, interest and redemption being responsible for a considerable proportion of the burdens that are laid on the ratepayers.

The revenue of the local authorities are obtained in part by the taxation (the "rates") they themselves levy and in part by the subventions and grants-in-aid they receive from the National Exchequer. The amount of this Treasury assistance has steadily grown and now makes more than half of the local revenues. This is the outcome of a rating system that, by its incidence, dare not be exploited much further. Local self-government in its dependence upon those beggar-my-neighbour Treasury subventions is so much at the mercy of Whitehall domination that its very existence is menaced. At the same time the local authorities are at loggerheads with one another in their scramble for the gratuities that the Chancellor of the Exchequer is able to afford; that is, out of the taxes which Parliament imposes.

Consider the nature of the taxation levied by the local authorities. It is so charged as to fall upon the actual use of land and any buildings or improvements thereon. If the land is not used it is not assessed; if it is poorly used it is assessed at a low figure; if it is well developed the assessment is high. The tax leviable on any property depends on what is called its "rateable value" which is based on the annual rent that the property could be expected to command if, when it is being assessed, it were let *in its existing condition* on a yearly tenancy, and the actual charge is the given number of "shillings in the pound" upon that rateable value. Since occupancy, not ownership, is the ruling factor, for so long as any property is empty and without an occupier, that property however valuable it may be is exempt from charge of rates. Owners* pay rates only if they themselves are occupiers. Subjected to this form of taxation are all houses, shops, warehouses and rent-bringing buildings of every description. Where any building is sub-divided so that the parts are in separate occupancy (as for flats, office premises, etc.) each such part is treated as a rateable subject and is assessed on the same lines. There are sundry differences in English and Scottish practice, but they are not material and need only passing notice. Under English law the "rateable value" is reached after deducting percentage allowances for maintenance repairs and insurance. Under Scottish law the annual rental is usually taken without such deductions, a circumstance that does not affect the relative burden on individual properties, other things being equal.

There is also the matter of the periodic revision of the assessments. Under Scottish law that can be made once a year; under English law, since the Local Government Act of 1925, provision is made for a general revision, or "revaluation" as it is misleadingly called, once every five years.

In defining rateable value we stressed the words "in its existing condition." They have a most important bearing. The result of applying that formula is that vacant land, for example, however much it would sell for, has no rateable value whatever. It is not valued. It does not appear on the assessment rolls. It is completely exempt from local taxation. But deliberately created are the privileges accorded by the so-called De-rating Acts of 1929 under which land in use for agricultural purposes is held exempt from any charge of rates. These Acts also reduce the rates on factories and other "industrial hereditaments" to one-quarter of what other occupiers have to pay. This loss to the local authorities is computed to be no less than £60,000,000 a year, and the ultimate effect is assuredly to increase the monopoly price of land. Over the whole agricultural territory the rates fall only on human dwellings. Landlordism rides roughshod over the scene.

Such, in brief, is the mechanism of the local taxation system. How it works and what its failings are is tersely described in a recent editorial in *The Times*: "In their present form the rates are an inequitable tax levied on the occupiers of arbitrarily selected types of property, bearing more hardly on poor than on rich and penalizing improvements to property." We hope that *The Times* will further develop the theme and point out the better way.

* Except that in Scotland, for certain services, rates are levied on both "occupier" and "owner," the latter recouping himself, in so far as he can by adding the charge to the rent. Of the general rate burden, the "occupier," as such, bears the greater share. The "owner," in this connection, means the party immediately entitled to receive the rent of the property; in most cases he is himself, under Scottish feudal law, a leaseholder paying to a superior landlord the perpetual rent called either a feu duty or a ground annual. Those landlords, like the recipients of ground rents anywhere in the United Kingdom, make no contribution to local taxation in respect of their interests in land.

The chaotic state of affairs has been much aggravated especially in England and Wales by the futile legislative attempts to amend it. The present Government has had no recourse but to introduce a standstill measure *The New Valuation Lists (Postponement) Bill*, the debate on which we reported in our December issue. The soaring local rates continue to be based on assessments long out of date and therefore all the more grossly unjust. Let us look at the course of events. The 1925 Act made rateable value, as we have described it, the continuing standard of assessment of all rateable property. It provided for the quinquennial general revision of the assessments from 1928 forward. There was the revision in 1933, but there has been none since. When it was due in 1938, the then Government, concerned that serious hardship might be caused by a very certain increase in the assessments, especially of houses, and fearing the inconvenient political consequences, put off the occasion. It was to be in 1941 when, perhaps, some means of meeting grievances would be devised; but of the devices that the government might have had in mind, nothing was heard. They could offer no cure to undo the effects of a system that is so relentlessly injurious in operation, and they dared not try to make it work as the law said it should. That recognition counts for something, but the dog that came near biting them—take rates off houses and other buildings and improvements and levy them instead on land values—was given a quick dispatch. The demands of local rating authorities for powers to rate land values were spurned. A notable example was the London County Council Site Value Rating Bill, introduced in the House of Commons in 1939, but incontinently thrown out.

After the war the Labour Party, coming to power, failed to make good its pledges in the matter of land value taxation. The position remained static until the passing of the Local Government Act of 1948. The Act set up a new and arbitrary standard for assessing houses, whereas all other properties were to continue to have their rateable values determined on the basis of the actual annual rental. The underlying intention was to cause the burden of rates to fall proportionately less on houses as a group and proportionately more on commercial premises, than would otherwise have been the case. The fears that were entertained in 1938 as the result of rigidly applying the established rating system to the homes of voters were thus thought to be overcome. New rules for assessing houses were issued by ministerial decree. These provided arbitrary estimates of values and costs of construction which were related back to the year 1938, differentiating houses according as they were built before or after 1918, whether they were within or outside the rent restriction limits or were private-enterprise or publicly subsidized houses. All the rating areas of the country were grouped into 27 different groups with varying figures, assigned in each such area, as being the hypothetical cost (in 1938) of this or that size of house graded as to its condition within six different "specifications." For the entertainment and instruction of our readers we reproduce (on pages 32 and 33) specimens of two of these documents. These are the forms H.B.C. No. 1 and H.B.C. No. 27 which apply respectively to the districts where the assumed costs are least and where the assumed costs are greatest. The documents are now, of course, of purely historical interest and they are for our readers to place, if they please, in the nearest museum of curiosities, accepting them also as testimony that high Parliament can as easily make itself the butt of ridicule as the common run of mortals often must.

To those structural costs there remained to add a hypothetical site value. For local authority houses it was to be the 1938 hypothetical cost of the land, but ignoring any excess over £1,500 per acre; for privately built houses it was the value of the land in 1949, on the supposition that it was restricted to the building of the same type of house upon it—which of course, is not site value at all. The structural cost and the so-called site value having been added together, five per cent of the sum was to be taken as the gross rateable value, the usual allowances for maintenance and repair being deducted to arrive at the net rateable value. As for the larger houses and privately built flats, and all dwellings built before 1918, these were to be assessed on the basis of the rents they would have commanded in the year 1939.

Every knowledgeable person, and in this we modestly include ourselves—witness what was said in August, 1948, LAND & LIBERTY: "Another Act of Folly"—predicted that this scheme of things could not and would not work. And so it has been. The baffled Valuation Department has had to give up the attempt. Abandoning the assessment of houses it has proceeded with the assessment of other properties, but obviously it would be most unjust to give effect to those assessments until the general revision of all properties was made. The Government, by its *New Valuation Lists (Postponement) Bill*, puts off until 1955 or 1956 the coming into effect of the new assessments, but it is in a quandary to know what other formula can be devised that will be workable in the case of houses. In our view the Government will fail as completely as its forerunners have done. All attempts to patch the system are unavailing. It must be re-built from its foundation upon a basis that will recognise how foolish and how wrong it is to tax any building or improvement, and how wise, how right, how beneficial in the interests of the community it is to provide public revenue out of the value attaching to land, the value that in nature and origin rightfully belongs to the community. We invite the energies and co-operation of all who see this extraordinary opportunity to make public sentiment for that most just reform. A. W. M.

SALE OF A WEST END SITE

The recent sale of one of the few remaining freehold sites in London's West End is reported in the *Estates Gazette*, January 10. Situated on the corner of New Burlington Street and Savile Row, it is opposite the West End Central Police Station and adjacent to the newly erected building in the occupation of the Ministry of Health. The purchase figure is stated to have been in the region of £175,000. This is equivalent to approximately £168 per square yard or £813,000 per acre. The private ownership of the rent of land deprives Londoners of something in the region of £7,000 each year from this site alone.

BEYOND ALL UNDERSTANDING

"I was responsible for introducing the Town and Country Planning Act. I tried to be rather pontifical about it. As a matter of fact, there were large chunks of it which I did not understand."—Lord Jowett, former Lord Chancellor.