

New Zealand

by ROLLAND O'REGAN

NEW ZEALAND IS A SMALL COUNTRY AT THE WORLD'S end. It is not a rich country, though its benign climate makes it very suitable for agricultural and pastoral pursuits. It has no minerals in quantity suitable for important commercial development, though there are fairly extensive coal deposits. The country, therefore, has no heavy industries. Power is produced on a large scale from State-owned and -operated hydroelectric works. In area it is approximately 66,000,000 acres, of which some 20,000,000 acres are under cultivation. The remainder is mountains, lakes, wasteland, highways, urban and suburban areas. The population is rapidly increasing and has just passed the 2,000,000 mark.

In 1891 the Liberal Government headed by John Ballance introduced the present national land tax, and in 1896 local governments were given the right to levy their local rates¹ on land values.

THE VALUATION OF LAND

The valuation of the whole country is undertaken by the Valuation Department, whose head is the Valuer-

¹Taxes levied by local authorities.

General. This department was set up in 1896. It ascertains in respect of every property the unimproved value and the value of improvements, and these are both entered on the valuation roll. The two values together form the capital value of the property.

There is no general revaluation of the whole country as of one date, as in Denmark. The districts are revalued from time to time as occasion demands, and the dates of their revaluations differ, but a revaluation of any one district must be made at least every five years.

THE NATIONAL LAND TAX

This tax has been modified and whittled down by amendments and exemptions, but in the past 60 years its general framework has remained unchanged.

BASIS OF THE TAX

The tax is levied on the unimproved value of all the land in the country, subject to certain specified exemptions.

The "unimproved value" is "the sum which the owner's estate or interest therein, if free from any mortgage or encumbrance, might be expected to realize if offered for sale on such reasonable terms and conditions as a bona fide seller might be expected to impose and if no improvements had been made."

For the purposes of the national land tax, however, there is a special provision whereby the unimproved value excludes the value of any minerals or trees. The term "minerals" is defined as all "minerals, metals, coal, oil, clay, stone, gravel, sand, and precious stones." This

is just one example of the whittling-down process which started almost as soon as this tax became law.

THE RATE OF THE NATIONAL LAND TAX

The Budget presented by the National Party Government in August, 1954, changed the rates of the national land tax from a graduated to a "step" system. The tax is now to be levied at the rate of one penny in the pound on all taxable unimproved value up to £10,000; at two pence in the pound on the next £5,000 taxable unimproved value, at three pence in the pound on the next £5,000, and at four pence in the pound on any balance in excess of £20,000 taxable unimproved value.

The revenue from the national land tax is estimated at £1,200,000 for 1955, as compared with £1,000,000 in 1954.

EXEMPTIONS

The difference between the unimproved value as estimated by the Valuer-General and the taxable unimproved value is explained by the exemptions. These are four in number and are alternative. No taxpayer may claim more than one.

The Ordinary Exemption, as revised by the 1954 Budget,^{1a} provides that any property whose assessed unimproved value does not exceed £3,000 is exempt from tax. This exemption is reduced by one pound for every two pounds of assessed unimproved value in excess of £3,000, until the exemption disappears when the total reaches £9,000.

^{1a}The exemption was originally £1,000 with no deductions on properties of £2,500 or more unimproved value.

The Mortgage Exemption (maximum £7,500) provides that the capital value of a mortgage up to £7,500 can be deducted from the unimproved value and the balance becomes the taxable unimproved value. Thus a property whose unimproved value is £8,000 which is mortgaged to the extent of £7,500 pays 1d. in the pound on a taxable unimproved value of £500, that is, 500 pence, or £2 1s. 8d. An annual rent or a life annuity charged on the land is treated as a mortgage.

The Widows With Dependent Children Exemption provides a maximum exemption of £4,000 unimproved value.

The Special Hardship Exemption exempts £2,500 of unimproved value. This exemption is relatively unimportant but it remains as a strange contrast with those taxes on the necessities of life from which there are no such exemptions.

Finally, the national land tax assessed on land which is used in the production of taxable income may be claimed as a deduction for income tax purposes and for social security charges. This proviso reduces the amount payable by large land-tax payers by as much as 50 per cent to 75 per cent, according to the Taxation Committee, 1951.

Urban and rural lands contribute about equally to the revenue derived from the national land tax, about fifty per cent coming from each classification.

LOCAL LAND-VALUE TAXATION

✓ Since that historic year 1896, ratepayers in local body areas—that is, in boroughs, towns and counties having

councils with taxing power—have had the power to adopt the system of rating on unimproved value by a poll or vote of the ratepayers affected.² The procedure is to have a requisition for a poll signed by at least 15 per cent of the ratepayers. This requisition is then presented to the mayor of a borough or city, or the chairman of a town or county council, as the case may be. This official is then compelled by law to submit the question to a vote of the ratepayers not less than five nor more than six weeks later. If the poll is successful, thenceforward all rates are levied on the unimproved value. A simple majority of the votes cast is all that is necessary for a poll to succeed.

Prior to 1911, certain rates could not be placed on the unimproved value when a poll was carried, but in that year the law was amended. Those local body areas which had adopted the new system between 1896 and 1911 therefore succeeded in placing only some of their rates on the unimproved value, and a further poll was necessary to complete the transfer. Hence, in some local body areas, the rating on unimproved value applies only to the general rate, which is the rate applied to meet the ordinary administrative costs of a local body, and those rates levied to provide the interest and sinking fund on loans. These are a minority.

Polls are held very frequently. For example, in 1953, 15 such polls occurred, and since 1944 rating on the unimproved value has been adopted in 35 local body areas, whereas in that period it has been rescinded in only two. The procedure to rescind is the same as for

²A similar procedure is followed in Australia.

adoption. There must be a minimum interval of three years between any polls on this issue.

In the counties the only two rating systems used are the capital-value system—that is, levying on the composite value of land and improvements—and the unimproved-value system, which already has been explained. In other local bodies the rates may be levied on the unimproved value, the capital value or the annual rental value, which is so common in England. By a vote of the council a municipality may change from capital to annual value, or vice versa, but rating on the unimproved value can be secured only by a vote of the ratepayers. In 1891 the only rating systems operating in New Zealand were the capital-value and annual-value systems. Rating on the unimproved value is, however, slowly but steadily replacing these two. The following table summarizes the position in September, 1954:

| LOCAL AUTHORITY | UNIMPROVED VALUE | CAPITAL VALUE | ANNUAL VALUE | TOTAL NUMBER LEVYING RATES |
|---------------------|---------------------|------------------|-----------------|-------------------------------|
| Counties | 65 (7) | 59 | — | 124 |
| *Cities | 11 (2) | — | 2 | 13 |
| †Boroughs | 113 (15) | 14 | 17 | 144 |
| Towns (Independent) | 9 | 7 | 4 | 20 |

*Minimum population 20,000.

† " " 1,000.

Figures in parentheses indicate the number of areas where certain special rates are not on unimproved value. Includes all areas where the new system has been voted. A few will not operate until 1955.

Since the original act was passed in 1896, there have been only 39 polls to rescind rating on the unimproved value. Of these, only 14 voted to rescind, and six of them subsequently reverted to unimproved value rating. Of the other eight, one lost its identity by amalgamation

with a larger area; so today there are only seven areas rating on capital or annual value which once had adopted the new system.

It will readily be seen that rating on the unimproved value is the dominant rating system in the country. This is all the more remarkable when it is remembered that rating on the unimproved value can be secured only by a poll demanded by the ratepayers themselves. All the forces of social inertia are against this demand being made. Each poll requires initiative, energy, time, money and work. In the counties, the difficulties are greatest because of the conservatism of rural communities, the large areas to be canvassed (one county where this reform was adopted in 1950 has an area of 1,675 square miles) and the scattered nature of the population. In addition, in the counties there is a system of plural voting. Ratepayers holding property of up to £1,000 of ratable value have one vote; those with a value of £2,000, two votes; those with a value of £3,000 or more, three votes. These situations make progress in the counties slower than in the urban areas. Yet, despite the handicaps, the new system has long ago passed through the experimental stage and is now well established.

REVENUE FROM LAND-VALUE TAXATION

This may be calculated from three sources for the year ended March 31, 1952: (1) local taxation; (2) national land tax, and (3) annual rent from Crown lands.³

³Crown lands, that is, lands owned by the government, are let on leasehold tenures. Rentals are all on the basis of a percentage of the unimproved value of the land and the tenant purchases the value of the improvements.

In 1952 the total local taxation of the country was £12,735,565. Of this sum £7,079,606 was raised in areas levying on land values alone and £5,655,959 in areas levying on land values and improvement values combined. In these latter areas the composite ratio of improvement values to land values was as 180 to 100. If the revenue of £5,655,959 is divided according to this ratio, it can be calculated that £2,019,985 falls on land values only. This, added to the £7,079,606 mentioned above, gives a total of £9,099,591 raised by local bodies from the tax on land values in the year 1951-52.

For the entire country the land-value tax produced from all sources during the same year, was as follows:

| | |
|------------------------------|-------------|
| Local taxation | £ 9,099,591 |
| National Land Tax | 1,137,937 |
| Annual rent from Crown lands | 939,673 |
| Total | £11,177,201 |

Total taxation for the entire country for the year 1951-52, including social security charges (£43,612,942), amounted to £200,549,881.⁴

Figures for the year ended March 31, 1954, when released, are bound to show a considerable increase in land-value-tax revenue. Since 1952 rating on unimproved values has been adopted in an additional 14 localities. Local-body revenue has increased as a whole, and land-tax receipts have grown due to rising valuations. For these reasons it is safe to estimate that some £13,000,000 a year of economic rent is now being gathered into the public treasury.

⁴New Zealand Official Year Book, 1951-52.

THE REFORM MOVEMENT

In the 1890s progressive political thought in New Zealand was strongly under the influence of Henry George, and a well-informed public opinion existed on the land question and its significance. This expressed itself in legislation by the establishment of leasehold tenure in place of freehold tenure for all unalienated Crown lands. Crown lands were widely taken up under a system of Crown leases. The rent to the Crown was at the rate of 5 per cent of the unimproved value at the time, with no provision for increased rentals of leases as valuations increased. The function of the land tax was to bring into the public treasury subsequent increases in land values. Even today, half the occupied lands of the country (exclusive of land in boroughs) is held under some form of lease from the Crown.

The most significant achievement of this period, although least regarded at the time, was the granting to ratepayers of the power to place local taxation on land values. Other notable accomplishments were the setting up of the Valuation Department and the institution of the national land tax. This tremendous upsurge in progressive opinion culminated in the fiercest political conflict the country has known, and after 60 years the echoes have not yet died away. In spite of the distraction of two long periods of war, of depressions and the pursuit of socialist palliatives which followed, there still remains, as part of the political consciousness of the country, a tendency toward liberalism in all questions concerning land

tenure and State collection of what is popularly called the "unearned increment."

The New Zealand League for the Taxation of Land Value is probably the most active single unit working in New Zealand to extend the steady progress of land-value taxation in local government by promoting and encouraging rating polls wherever possible. In this undertaking it has met with considerable success, as is demonstrated by the growing number of areas in which the system has been adopted. The League also advocates that the national land tax be levied through a flat rate, without graduation and without exemptions of any kind, and recommends a general revaluation of the whole country, on the Danish system, in each census year. Contending that the new system has proved itself and that the country should have one single uniform rating system, the League advocates that the rating on the unimproved value be made mandatory. The fires of public opinion on these issues already have been lighted. The task which the League has undertaken is to see that they are constantly rekindled.