Impressions of Property Taxation in Australia and New Zealand
Author(s): Harold M. Groves
Source: *Land Economics*, Vol. 25, No. 1 (Feb., 1949), pp. 22-28
Published by: University of Wisconsin Press
Stable URL: https://www.jstor.org/stable/3144869
Accessed: 07-02-2022 03:12 UTC

Impressions of Property Taxation in Australia and New Zealand†

By HAROLD M. GROVES*

THREE significant generalizations about property taxation in the South Pacific countries strike the American observer at once, and they will serve as a safe beginning for this article. The first is that, although these countries generally overlook nothing in their tax systems and tax what they tax at least as heavily as we do, general property is an exception. They ignore personal property entirely and in many jurisdictions extend this immunity to improvements. This leaves a very narrow base for property taxation and, while they frequently (though not universally) tax land more heavily than we do, the total load (relatively speaking) borne by general property is certainly very much less. The second observation is that while in general the South Pacific countries are notoriously indifferent to incentives in ordering their tax systems they are far more sensitive than we are in the local and property tax areas. The third generalization is that while the seeds of doctrine scattered by our own "prophet," Henry George, fell on uncongenial soil at home, they have fared much better in Australia and New Zealand.

Summarizing the facts with regard to the tax base, one observes that in three of the six Australian states (Queensland, New South Wales, and West Australia) all property taxation is based almost exclusively[1] on unimproved land values. In the other three states municipal voters have an option as to the broader or narrower base. An undated summary for the country as a whole concluded that there were 622 municipalities using unimproved land value rating and only 370 using annual (including improvements) value rating. "Many years ago all used annual value but the great majority have abandoned it." Over 90 percent of the area of Australia under municipal government uses the site value basis.[2]

In New Zealand voters have the triple option of rating on unimproved value, "improved capital value" (as in the United States), and annual value (as in Great Britain). The proportionate number of local authorities rating on unimproved value at the beginning of the 1945-46 fiscal year was 54.37 percent and the proportion of the people in the Dominion in districts so rating[3] was 60.8 percent. Of the principal cities, Auckland and Dunedin rate on annual value and Wellington and Christchurch on unimproved value.

Charges on land values in both countries are not confined to local levies. They also take the form of Crown leases of public land and national and (in Australia) state land taxes. These central collections, however, usually reach certain properties only. This is true in the case of the land taxes because of a specific exemption. However, no such exemptions are provided in Tasmania, South Australia and West Australia.

A prewar estimate places the Austra-

* Department of Economics, University of Wisconsin.

† Based mainly on impressions and documentary evidence gained in a recent trip through these countries.

[1] In the case of some special charges, improved values may be included.

[2] *Rating upon Net Annual Values or Rating upon Unimproved Land Values?* General Counsel for Rating Reform, Melbourne, p. 2. The summary is recent enough to be indicative of present facts. It says nothing about the population under the two systems, which would be a more significant datum than area but one not available. The author's impression is that the trend toward taxation of unimproved land values in the populous state of Victoria, while steady, has been slow.

[3] *New Zealand Official Yearbook, 1946*, Wellington, 1948, p. 471.

lian annual collections from unimproved land values at approximately £15 million.[4] In terms of American money and population this would mean an equivalent of from $1,250,000,000 to $1,500,000,000. This looks within the range of the land portion of our own general property tax (the whole calculated at $4 billion and assuming a third of the base was land.) However, the Australian figure does not include the contribution of land to the local tax on improved value. Local rates alone in the municipalities of New South Wales usually run 4 or 5 pence in the pound (in the neighborhood of 2 percent). In the case of the national tax the graduated rate on estates (of residents) worth £75,000 adds up to 5 pence in the pound and is confined to the excess over the exemption of £5,000. The higher state taxes are also in this range. However, combined taxes on land in Australia are said to run not infrequently to 7 or 8 percent of unimproved value. Unimproved values in in the city of Sydney constitute slightly under 30 percent of total capital value.[5]

An explanation of these relatively modest rates on such a narrow base is not at all difficult to find. Local government in Australia and New Zealand is a very limited affair compared with its counterpart in the United States. Particularly important and conspicious is the fact that public education in these countries is supported entirely by central governments and is thus very largely divorced from the property tax. Whether or not this is good for the schools is an interesting question but one that need not here detain us. Suffice it to say that were the American property taxpayer "shed of" his school tax he would regard himself on easy street (with perhaps as much as a third of his load lifted). Nor is this the whole story. In many Australian cities (Sydney, for instance) fire and police protection and street transportation are largely state functions. The assessment of property itself is very largely centralized. This leaves the municipality a comparatively light load. Incidentally, it explains in part perhaps why the division of a Metropolitan area like Sydney into a relatively minute central core and some 48 suburbs (all largely independent)[6] is tolerated and tolerable.

It should be noted also that the land tax program of Australia and New Zealand is not only not a "*single* tax" program; it involves features which are not Georgian and that are opposed by many Georgians. Significant here is the fact that the national and state land taxes are characterized predominantly[7] by graduation, a minimum exemption and other features giving these levies the earmarks of "personal taxes." They aim not so much at government collection of economic rent as at dismemberment of great estates and the development of widespread ownership of land. As revenue procurers they are of minor importance. They go back in Australian history to the days when land-hungry settlers and erstwhile miners sought to wrest good holdings from those who had "come in on the ground floor." Or they can be regarded as part of a more or less world-wide movement to correlate the ownership and operation of land. This objective is not necessarily incompatible with the Georgian idea of socializing the economic rent of the land, but it is not a part of the Georgian program and is regarded with hostility by many "simon-pure" Georgians. These taxes are criticized by others also on the ground that

[4] E. G. Craigie, *The Taxing and Rating of Land Values in Australia*, 1939, p. 28.

[5] *The Official Year Book of New South Wales, 1941-42, 1942-1943* (Sydney), p. 484.

[6] County Councils may and have been formed for the provision of certain services.

[7] Of the Australian state taxes only those of Tasmania and Queensland are graduated.

they are a clumsy instrument, ill-calculated to promote optimum holdings in the several widely different forms of land use such as pastoral, mercantile and manufacturing. Like other progressive taxes, they encounter the subterfuges by which a single personality presents himself to the revenue as two or more: that is, creation of corporations and trusts for holding real estate and division of ownership among members of the family.[8]

The principal advantage claimed for confining the property tax system to land is that this is said to be conducive to building. Land values, it is said, are the product of a natural gift and community development. Sites are inelastic in supply; and income attributable to them needs no coaxing and cannot be discouraged. On the other hand, buildings are produced by individuals and building can be and is discouraged by high taxes. In short, it is at the personal rather than the community level that incentives are effective. This is the familiar Georgian doctrine that it is folly to "fine" an individual because he has "painted his garage."

Much interest centers on the question of which properties in a community would immediately benefit and which would lose by making use of an available option to shift from the taxation of real estate generally to that of site values exclusively. Georgian organizations in Australia sometimes make exhaustive studies of this pending a referendum on the matter. It is obvious, of course, that property owners whose ratios of improvements to land are above average stand to gain and those whose ratios are below average to lose. More specifically, the owners of most manufacturing properties and of well-improved residential and mercantile properties will gain. In the case of mercantile property the outcome is rather uncertain; land values may be relatively high in the case of centrally-located mercantile property even though such property is reasonably well improved. "Decadent residential" property and vacant land will, of course, suffer as will quarries. In case urban and rural property both contribute to the same treasury (which does not happen often on an important scale in the case of Australian local rates) the latter will ordinarily lose by the change to the more restricted tax base; this is due to the fact that the ratio of improvements to land is higher in the city than on the farm.[9]

Although there have been elaborate attempts to demonstrate differential rates of development attributable to taxation policies with regard to land and improvements there are so many variables in the matter of community growth that any analysis of this sort has to be judged as somewhat inconclusive. Nevertheless, it may be recorded that the Georgian organizations of Australia have published extensive data purporting to show that the land tax states and areas have a marked advantage in agricultural development, building construction, increase in net income and factory expansion. The data in the main consistently support the authors' thesis.[10]

Fundamental to Georgian doctrine of course is the proposition that the incidence of land taxes is on the landowner and that land taxes tend to reduce land values whereas other taxes are shifted

[8] An interesting and unique feature of the administration of these centrally-imposed land taxes in these Dominions is that which authorizes public purchase in case the landowner submits a figure deemed subtantially below actual value. For discussion, see James H. Gilbert, *The Tax Systems of Australasia* (University of Oregon, 1943), p. 57. The rule works both ways in New Zealand (*ibid.*, pp. 126, 139).

[9] These conclusions are based largely on *Report on Social Effects of Municipal Rating*, a study conducted in Footscray (Melbourne suburb) by the Land Values Research Group with the cooperation of the Footscray City Council and on the studies of H. Bronson Cowan for the International Research Committee on Real Estate Taxation (mimeographed and made available to the current author by Mr. Cowan).

[10] *Public Charges Upon Land Values* (Melbourne, Henry George Foundation.)

forward as costs of production. Empirical data can be found to support this deductive contention.[11] The point is used as an argument against, as well as for, the exemption of improvements. On the one side it is argued that reduced values make land more available to poor people and reduce the burden of rising taxes as land passes from generation to generation. On the other hand it is argued that lower values mean a lower tax base and this means higher tax rates and still lower values in an unending spiral. It must be granted that there are two factors at work that may have counteracting effects on land values. The tax itself very probably tends to reduce them but the stimulus to building (if it is effective) may offset this tendency from the demand side. More building, better services, a developing community (attributed to the shift from annual to unimproved value rating) tend to support land values. Evidence from specific studies of transitions from the broader to the narrower base of taxation indicates that, within moderate levels of charges, land values have frequently shown no decline following the change. In fact, the contrary has sometimes occurred.[12] Moreover, decrements in land might be offset to some extent by increments in buildings. (The latter of course would not figure in the tax base but would be important to the property owner.) These increments, however, would be temporary; in the long run, buildings as such tend to be worth their cost of reproduction; a buyer would be foolish to pay more for an existing structure than the cost of the presumably available ingredients to build another like it. The fact that land values need not respond negatively to the exemption of improvements accounts for the fact that "real estate men" may not be well-advised to oppose such policy and in fact are not always opposed to it.

Arguments heard in the South Pacific against the local taxation of land values (exclusively) are familiar ones: first, that it leads to overcrowding in cities; second, that it ignores the benefits of local government that are enjoyed by the owners of improvements; and third, that it leaves too narrow a tax base to support local services.

The first (overcrowding) is countered with the proposition that land values are capitalized and take their toll from present and past owners, leaving future buyers with no more incentive to overimprove land than they would have without the tax. A person who purchases a large homesite (placing a high value on light and air and space) will pay less for it taking account of the tax (and anticipated tax) that runs with the land. Thus his imputed interest will be less and his total cost no higher than as though the tax were nil. In other words, he pays for the same value either way; in one case he buys subject to an obligation to pay part or all of the income attributable to the land in taxes; in the other case he pays more interest to someone else or ties up his own funds and imputes it to himself. Under Georgian taxation, as compared with general taxation, the new owner of an idle lot would have more carrying charges but he would have less money tied up in his investment. Of course the Georgians cannot have it both ways; in so far as this argument is sound, it counteracts the contention that land taxation is stimulating to development at all. The truth probably is that the

[11] Thus for instance it has been calculated that from 1901 to 1937 the percentage increase in land values in Victoria (taxing improvements) was conspiciously greater than in Queensland (taxing land only). The former showed an increase of 77.5 percent and the latter a decrease of 16.7 percent. On the other hand, Tasmania experienced a lesser increase than New South Wales, a fact that is accounted for by the authors as due to the former's loss of population. The figures at least illustrate the difficulty in drawing conclusions from data that are the result of several variables. (*Ibid.*)

[12] H. Bronson Cowan, "The Effect of Site-Value Rating on Land Values," (Interim Report No 19: mimeographed).

present owner will consider the fact that he can reduce his taxes in relation to his wealth if he invests newly acquired financial resources in improvements rather than in land. This creates an incentive for improvement and over-improvement. However, over-improvement (social rather than economic) can be counteracted in other ways such as through building restrictions. Of course, the development of transportation will make overcrowding less profitable.

Turning to the second argument, the Georgians hasten to repudiate benefit taxation theory. Here, of course, they have much authority on their side, citing the absence of any clear calculus by which benefits can be allotted to taxpayers. The Georgians also make short shrift of ability-to-pay considerations. They regard the ability doctrine as perverse and hold that recent trends giving it more and more scope are headed for (if they haven't already occasioned) pernicious results. The Georgians give all honor to Adam Smith's economy canon, that taxes should be so levied as not to discourage economic development.

The final argument—that land values leave too narrow a base for local taxation —has less validity in Australia than in some other countries, Western Canada, for instance. As previously explained, the area of local responsibility has been nicely limited in Australia and New Zealand, giving the Georgians the best possible situation in which to demonstrate successfully.

It is in Australia that the greatest effort has been made to isolate and tax "pure economic rent." It will be recalled that many economists have long insisted that the separation of land and improvements could never be done with precision. The New South Wales Yearbook defines "improved capital value" as "the amount by which the fee simple estate of the land, with all improvements and buildings thereon, could be sold." Unimproved capital value is simply the above, "assuming that the actual improvement had not been made."[13] This may sound simple but it is a very troublesome concept to understand and administer.

The improvements that administrators seek to eliminate are not of course the general improvements of the community. The question is not one of what raw land would be worth to new settlers but what such a good would bring in the midst of a civilized and (probably) well-settled community.

It is recognized that improvements may be intangible as well as tangible. Improvements and buildings are not identical terms. Grading, clearing, fencing, fertilizing and removing pests are intangible improvements. A tennis court is an improvement, not one of "the original and indestructible powers of the soil."

Trouble arises in the case of ancient intangible improvements that may or may not have lost their relevance to modern conditions. Thus, if two lots are exactly alike except that many years ago Lot A was marked by a gully which required filling (and was filled), should the two be valued and taxed differently to the end of time? Let us say that both lots are now worth $5000 and that the cost of leveling the one many years ago was $500. Should the assessor continue to recognize a difference of $500? On Georgian logic the answer is a simple affirmative yet an Australian Commission expressed grave doubts.[14] Even more troublesome is the matter of long-standing investment for clearing or for the removal of ob-

[13] *The Official Yearbook of New South Wales, 1942-41 and 1942-43* (Sidney) p. 482.

[14] *Fourth and Final Report of the Royal Commission on Taxation* (Canberra, 1934), pp. 216-218.

noxious weeds or some other condition inimical to production. What should the rule be in case weeds are removed and then are allowed to return and require clearing a second time? In this latter case it seems quite clear that the outlay ought not to be "chalked up against the original and indestructible powers of the soil." It has been suggested that a time limit for the carrying of these intangible offsets might be imposed. No clear rule seems to have been established except the rather indefinite one that the intangible improvement must have current relevancy to the productivity of the land. Thus, expenditure for fertility could not be used as an offset in the case of urban land.

There has been some dispute as to whether an evaluator should proceed to find land values by "subtraction" or "abstraction." The difference between the two and the difficulty with the former, in some cases, can be illustrated very simply by citing the instance of overbuilt property. Ordinarily, total value minus improvement value equals land value. But, in the case of overbuilt property, subtraction will not give the right answer. It is necessary to "abstract" the land from the situation, compare it with other land with similar attributes, and determine for it an independent valuation. Total value minus land value will then give the correct figure for the value of improvements. Both "abstraction" and "subtraction" have been recognized in Australia as leading to a valid result in the proper circumstances.

The question may also arise as to whether land takes on value because it is the situs of a profitable business. Usually the value associated wth a business as such is independent of the premises on which and in which it is conducted. Thus two lots in equally good locations would not have different values because one was associated with a profitable and the other with a losing business. The difference might be due to management or it might be a matter of more and less favorable business circumstances that are reflected in a value of businesses as such. We are familiar for instance with the intangible business value known as good will. But in the American practice of assessing utilities it has been assumed usually that the value of the business carries over into the value of the premises. And there have been cases in Australia where profit from a business was held to "run with the land." Thus in a case where land was used as a race course[15] it was held to acquire value from this particular and very profitable use. The property was licensed by the Queensland Turf Club and the license had passed through two exchanges. On the other hand, in later cases involving licenses, particularly hotel and liquor licenses, the privilege was said to run with the improvements and the allegation of particular value for the land arising from the nature of the business conducted on the premises was rejected. Moreover, in one such case, appealed to and adjudicated by the Privy Council of the British House of Lords,[16] the Court refused to apply the subtraction method. Improvements were to be taken as not only nonexistent but as though they had never existed. The land should be divested, nationally, of all improvements and the work of valuation should proceed from that basis.

The difference between abstraction and subtraction in the case of property used in a profitable business is fundamentally the question of whether some of the value of the business attaches to the land. Where a particular lot has been

[15] *Commissioner of Land Tax* v. *Nathan*, 16 C L R654 (1913).

[16] *Toohey's Limited* v. *Valuer General* (1925) A C 439; see also *Wilson's Case* 1927 V L R (Victorian Law Reports 399).

committed to long use as an hotel and adjoining lots might have been but will not be selected for an equally profitable use, subtraction of the investment in improvements from total exhange value will give the hotel lot more value than that of adjoining lots. Abstraction or substitution will give it the same value as the surrounding sites. It is settled, of course, that land should be assessed at its value in its most profitable use but this rule may not prove very helpful. Perhaps it was the pardonable confusion of one court which prompted it to state that value "is to be ascertained by a consideration of all the circumstances and not upon fixed methods and rules."[17] Fortunately, such troublesome cases are the exception and not the rule.

It is interesting to observe that the "single tax" movement in Australia is not mainly a class movement and attracts many who espouse no other form of radicalism (if this tax doctrine may be so designated). Many of the Georgians are well established and quite successful in "the free enterprise system." Many of them prefer the Liberal (conservative) to the Labor (socialist) party. They disapprove of the latter's penchant for protection and government ownership. Challenged on the score that no *single* tax could possibly support a modern national governmental budget plus those of all its constituent states, they counter with the reply that these governments may be substantially "overgrown." The rent of the land, they say, would be adequate to finance all the government that is needed and legitimate. Of course not all of those who favor the exemption of improvements carry their "Georgianism" that far.

The author was presented with the following bit of doggerel which throws some light on the nature of "simon pure" Georgian philosophy as it survives on a considerable scale in Australia:

The bane and curse of man and nation
Is the robber who robs in the name of taxation
The power to tax is the power to destroy
The wealth we produce that all should enjoy
It's abundantly clear to eyes and minds
That the earth is the birthright of all mankind
Let the bells ring out from every steeple
The rent of the land belongs to the people!

The application of rates in Australia and New Zealand outside of the prevailing practice of exempting improvements is not unique. In general, the taxation of annual value follows quite closely the British model. However, idle lots are not exempt from levy. In Victoria, rates are levied on the occupier or, if there is no occupier, upon the owner. However, it is provided that where the occupier pays the rates and where there is no agreement between the parties, the occupier may recover the tax from the person to whom he pays the rent. The rule prevails generally, with some safeguards, that local governing bodies may levy special rates on parts of districts deemed to be specially benefited by certain public outlays. In South Australia property used for the purpose of any school or academic institution charging fees is assessed at one-fourth its value and that for agricultural or horticultural exhibitions at one-half its value.

The author of this article disclaims any intent to promote or discourage the idea that land is especially suited for taxation. His purpose rather is to describe and explain certain taxation practices and ideas that have a unique development in these English-speaking countries. Whether these developments have any relevancy for the United States might be interesting to explore, but the author will forego the temptation and leave the reader to form his own opinion.

[17] *Scott McLeod* v. *Commissioner for Land Tax*, 35 A L R 195 (1929).