

LAND & LIBERTY

Editor V. H. BLUNDELL

New Twist to an Old Theme

PETER HUDSON

SINCE 1918 the Johannesburg City Council has been raising local revenue on the unimproved site value basis. Residents and business operators are therefore fully aware of the principles underlying the public collection of economic rent to finance necessary services. In spite of the site value rate, however, capital gains from land transactions often arise when land changes to more intensive use, particularly on the fringe of the built-up area. This happens because the tax rate levied represents only a proportion of the rental value of land—a value which is continually rising with increased prosperity and city growth.

For some years, however, the City Council has raised an additional charge in respect of individual properties when increases in land value have arisen as a result of planning decisions. In 1966 the system of "development contributions" was ratified by statute into a full scheme operative in conjunction with town planning zoning changes. This requires that where an increase in value occurs as a result of sub-division, the declaration of an expansion area or a zoning variance, a levy of 50 per cent of increment is made. This charge has normally to be paid before any development takes place, but the local authority may agree to its payment by instalments over three years. Alternatively, the Council may accept from the owner a piece of land equal to the amount of the levy. This is particularly useful where road widening is projected. In the case of subdivisions, conditions may also be imposed requiring contributions in cash or endowment towards roads and stormwater draining works.

From a report on this system, in the *Australian Planning Institute Journal*, it seems that the development contribution has proved to be politically acceptable, mainly because the 50 per cent level still leaves something for the developer, who, in any event, has ample opportunity to contest planning proposals and can appeal against the increment assessed.

It is easy to see the logic and expediency of the Johannesburg system. The fact remains, however, that betterment levies, whatever their form, are onerous taxes which depend on "occasion." As such they have to be paid for usually before any revenue is received. The effect they have on checking the price of land in the market depends on the elasticity of the supply, but normally the effect would be minimal. The influence of the site value rate, however, is another matter, and it is encouraging to note that reappraisal for tax purposes is made in the wake of the planning schemes.

86

This system of "development contributions" illustrates the need for ancillary fiscal devices where less than the full rental value of land is collected. Substantial capital gains can still be made under a site value rating system if the tax rate is low. It is clear that the motive for introducing the "contribution" was moral rather than fiscal, for city finances could always be improved by an increase in tax rate. This is no argument against site-value rating but serves as a firm reminder that site-value rating is no real substitute for a full-bodied 100 per cent rent-of-land tax. It must be admitted, however, that by providing for the surrender of lands to public use as an alternative to accepting the "contribution" the Transvaal Provincial Legislature has made a useful innovation to municipal law.