

Resistance to a Backward Step

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THROUGHOUT THE WORLD local governments are short of money. Counties, shires and municipalities in England, the U.S.A., Australia, Israel and New Zealand, all find themselves in urgent need of more money for investment in improvement projects and services. Everywhere the questions are the same. How can money be raised in economic systems where total taxation is already at a high level? How can necessary local improvements be effected without punitive local taxation that will be electorally unwise? Who should carry the tax burdens and why?

Most systems of local government rely on property taxes for a large part of their revenue. Property taxes have been levied in various guises for thousands of years. They have never been popular; they have always been the subject of political pressure and great controversy. The incidence of property taxation is direct and clearly established. Indeed, it is the noticeable impact of property taxes, which are generally paid "across the counter," that gives rise to criticism. Property tax payments hurt. Some forms of property tax, however, hurt more than others.

At the recent Claremont Conference in California, municipal tax experts were agreed that property taxes will continue to provide a large part of United States local revenue in the future. Many of those who attended, however, pointed to the important distinction between land-based taxes and improvement-based taxes. Many considered that land should carry a greater percentage of the tax burden, and some considered that all local taxes should be based exclusively on land. The effects of land-value taxation were far more beneficial than the punitive effects of taxes on buildings. It was argued that land provided a sound basis for taxation and the potential revenue from it was very large.

In parts of Australia and New Zealand, land-value taxes have been raised since before the turn of the century, with noticeable beneficial effect. Nevertheless, there has always been pressure from time to time to erode the system, to give concessions and to yield to land owning interests. So far these have been resisted. In both countries, however, renewed efforts are being made to shift the burden of ever-increasing municipal costs in other directions. A battle is soon to be waged in New South Wales. A Legislative Amendment is now before the New Zealand Government. This Amendment is presented in a subtle and persuasive form.

Clause 25 of the New Zealand Rating Amendment Bill

1965 provides that if the site-value assessment is less than 15 per cent of the total of the land-plus-buildings assessment then the site value for tax purposes shall be deemed to be 15 per cent of the total value. The New Zealand Unimproved Rating Association is presenting evidence by its president, Roiland O'Regan, F.R.C.S., to oppose the Amendment.*

Dr. O'Regan's case takes its stand from conclusions reached by the New Zealand Royal Commission on Local Authority Finance, 1958, when similar proposals put forward by the Municipal Association were rejected. The Commission's view at that time was that: "We feel it would be both undemocratic and unwise to impose by legislation any alteration of the Unimproved Value (site value) system upon all the local authorities whose rate-payers have resolved by poll to adopt that system and it would probably create as many anomalies as it would remove."

Research undertaken by the Unimproved Value Rating Association indicates that if the Amendment is adopted, 95 per cent of Wellington ratepayers would enjoy a slight decrease in rate burden (assuming the same total expenditure by the municipality) while five per cent of the rate-payers would get a steep rise in rates of many hundreds of pounds. Where the ratio of building value to land value is greater than 5.6 to 1, rates would rise. Those affected by increases would be a small number of homeowners, multi-storey blocks of flats, and the most modern commercial buildings. The Amendment, therefore, would amount to penalty taxation where residences have been constructed on difficult and hilly sites, where a developer has constructed a higher value development than average, such as flats in areas of single dwellings, or where the commercial potential of the site is being exploited to the full. Indeed, the supporters of the Amendment feel that these classes of property should bear a higher proportion of local costs.

The Unimproved Value Rating Association, however, points out that the Amendment would be a most retrograde step for a country which has through popular vote shown its preference for the site-value system of rating over a period of seventy years. Moreover, the 15 per cent "minimum value" could easily be increased progressively over a period of time to revert to full land plus buildings assessments. The Association points out that the effect

of such a change would be to increase Wellington land values by approximately five million pounds. Landed pressure group interests would clearly have much to gain from the abandonment of the site value principle.

The Amendment's supporters, largely focussing attention on "ability to pay" rather than on "benefits received," argue that the large, new and impressive modern buildings rising in New Zealand's largest towns do not pay their share of local duties and place heavy burdens on the authorities. The Association challenges these contentions, pointing out that the fine new buildings are in themselves indications of rising land values and that within a short time the market value of the land will probably increase to become 15 per cent or more of the total land plus buildings value. Dr. O'Regan stresses that intensive site

use does not increase municipal costs. In New Zealand water supply is metered and charged by volume, refuse collection is a unit charge. High buildings do not require lengthy sewerage service or road links, although ultimately roads may have to be widened. Building controls can facilitate widening and the provision of parking.

Even in the strongholds of land-value taxation there will always be pressure from interested parties for retrograde concessions. In New Zealand these pressures have been largely resisted in the past. That 77 out of 113 counties, 75 out of 88 county towns, 105 out of 126 boroughs and 17 out of 19 cities have all adopted site-value rating by popular vote is a devastating measure of the success to-date of the appeal of untaxing buildings and improvements and taxing only land.

* Submission of the New Zealand Unimproved Value Rating Association to the Local Bills Committee of the House of Representatives.