

The Single Tax Review

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Taxation on Land Values in New South Wales

NEW South Wales is the most populous State of the Australian Commonwealth. It has a State Legislature which raises a considerable revenue. It has also about 319 municipal and shire councils. Then there are such bodies as the Metropolitan Board of Water Supply and Sewerage, and the Hunter District Board of Water Supply and Sewerage. All of these, in addition to the commonwealth government, impose taxation.

In this article I propose to confine myself mainly to local taxation after making a few preliminary observations.

TAXES OF THE COMMONWEALTH

The commonwealth imposes customs and excise duties, income, probate and land taxes. The latter is on a graduated scale with an exemption of £5,000 off all estates except those owned by absentees. In this way about 60 per cent. of the values of all land are entirely exempt.

The State imposes income, probate and stamp taxes. It also taxes motor vehicles, and derives revenues from licenses to sell liquor, etc. In reality it also imposes another tax although it is not officially classed as such. A large sum, approaching £3,000,000 annually, is paid as interest on the cost of State railways and tramways. It is now paid out of freights and fares, which are excessive. There is a growing agitation to have this interest charge transferred from the traffic to the values of land throughout the State, so that a corresponding reduction may be made in freights and fares.

LOCAL TAXATION

The municipal and shire councils impose rates almost entirely on unimproved land values, exclusive of all improvements.

I propose now to take up the following questions of municipal taxation:

1. At what per cent. of value are land, improvements and personal property each assessed.

"Land" is assessed at its selling value. The section of the Local Government Act is as follows:

"The unimproved capital value of land (other than land held as described in subsections two and three of this section) is the amount of the capital sum for which the fee-simple estate in such land would sell, under such reasonable conditions of sale as a bona fide seller would require, assuming the actual improvements (if any) had not been made; and also allowing a reasonable reduction for profitable expenditure by the owner or occupier on visible and effective improvements which, although not upon the land, have been constructed for its drainage, for its prevention from inundation, or otherwise for its more beneficial use."

The exceptions are optional provisions (1) in the case of coal mines of assessing the unimproved value at 3s. per

ton on an average annual output of large coal and 1s. 6d. of small coal for the three preceding years, (2) in the case of metals on Crown lands at 20 per cent. of the average annual saleable value of ore or mineral won during the preceding three years. In the case of leased Crown lands the unimproved value is held to be twenty times the annual ground rent.

ASSESSMENTS BY THE LAND VALUATION DEPARTMENT

All municipal and shire councils have hitherto made their own assessments. Last year (1916) an Act was passed establishing a Land Valuation Department which will make the assessments, and councils will get lists from it. The "unimproved value" in this Act is defined as follows:

"The unimproved value of land is the capital sum which the fee-simple of the land might be expected to realize if offered for sale on such reasonable terms and conditions as a bona fide seller would require, assuming that the improvements, if any, thereon or appertaining thereto, and made or acquired by the owner or his predecessor in title had not been made."

The definition in the Commonwealth Land Assessment Act is in the same terms.

Improvements are not assessed as such but are assessed with the land as the "improved value." In the shires or rural districts assessing the "improved value" is optional. As a result the value of the land only is assessed in 125 of a total of 135 shires. The definition of "improved value" in the Local Government Act is as follows:

"The improved capital value of land is the amount of the capital sum for which the fee-simple estate of the land, with all improvements and buildings thereon, would sell under such reasonable conditions of sale as a bona fide seller would require."

The Land Valuation Act and the Commonwealth Act is in slightly different terms, as follows:

"The improved value of land is the capital sum which the fee-simple of the land might be expected to realize if offered for sale on such reasonable terms and conditions as a bona fide seller would require."

An important related provision in the Commonwealth Act is as follows:

"Value of improvements," in relation to land, means the added value which the improvements give to the land at the date of valuation irrespective of the cost of the improvements;

Provided, that the added value shall in no case exceed the amount that should reasonably be involved in bringing the unimproved value of the land to its improved value as at the date of assessment."

The definition of assessed annual value in the Local Government Act (this Act does not apply to the City of Sydney), is:

"The assessed annual value of ratable land shall be nine-tenths of the fair average rental of such land with the improvements (if any) thereon: Provided, that such assessed annual value shall not be less than five per centum of the unimproved capital value of the land, whether improved or unimproved."

The Land Valuation Act is somewhat different.

"The assessed annual value of land is nine-tenths of the fair average annual value of the land, with the improvements (if any) thereon: Provided, that such assessed annual value shall not be less than five per centum of the improved value of the land."

The Commonwealth Act does not provide for assessing the annual value.

The value of "personal property" is not assessed, and is not taxed.

EFFECT ON INDUSTRIES AND CLASSES

2. What has been the effect of land value rating on
 - a. Manufacturers and merchants?
 - b. Owners of improved property?
 - c. Owners of building sites?
 - d. Rents?
 - e. Builders and real estate agents?
 - f. Holders of mortgages?
 - g. Working class housing and hours of labor?
 - h. Farmers, both owners and tenants?
 - i. Public revenue?
 - j. Public facilities such as schools, etc.?
 - k. Poverty?

It seems to me that the best way is to state the general position and in that way the answer to all these points will be obvious. Prior to 1907 there was no shire or rural local government in New South Wales. Local improvements were carried out by the central government. Every Premier for about thirty years promised a comprehensive system of local government so that the local people might use their own revenue and attend to their own wants.

SIR JOSEPH CARRUTHERS

The man of action arrived at last in the person of Mr., now Sir Joseph H. Carruthers. He attained the Premiership in 1904. Unlike other Premiers he carried out his promises to the electors most faithfully. He passed the Rates Act, and the Local Government Extension Act, which were at once consolidated into the Local Government Act of 1906. Shire Councils were given one basis of rating—the value of land exclusive of all improvements. The first official returns are for the year ending 31st of December, 1914. The unimproved value of the land in the 35 shires in that year was £103,451,177 and the total amount of rates levied was £623,690. As the system is new, endowments and grants from the central government

are given to supplement the locally raised revenues. Ultimately, however, these will be discontinued in most cases if not altogether. The total amount granted in 1914 was £329,944.

In the municipalities Sir Joseph Carruthers had to proceed more warily. In most instances some government expenditure for local works was being incurred in municipal areas. The State government for its own purposes imposed a land values tax of one penny in the pound with an exemption of £240 dating from 1896. The local expenditure mentioned was transferred to the councils together with power to collect the land tax as a rate, but the exemption was struck out. So far as the rest of the rate revenue was concerned councils were given the option of imposing it on unimproved land values or on the improved value subject to a poll of the ratepayers, if demanded. Under the old Act rates were imposed on assessed annual values of properties, which was nine-tenths of the fair average—actual or in many cases assumed—rental with a supposed minimum of five per cent. where land was vacant. In practice, however, persons could put a ring fence round valuable areas, and let it to a local dairyman for a nominal figure, or build a "humpy" on it and let it. In such cases owners paid practically nothing towards the cost of local services. The Carruthers Act ended this fraud by stipulating that the assessed annual value should not be less than five per cent. of the unimproved value. The Land Valuation Act is still more stringent and says five per cent. of the improved value. Municipal rating on the assessed annual value was abolished under the Local Government Act, but the system was continued by the Sydney and Newcastle Water Boards and the City of Sydney under its own Act. The latter body finally abandoned it in 1916.

THE LOCAL GOVERNMENT ACT

The rating provisions of the Local Government Act came into force in 1908. A large majority of the councils immediately decided to impose all their rates on land values only. In some cases councils proposed to put part of the rates on land values and the balance on the "improved" value. Polls were demanded in a number of cases. All polls were decided in favor of rating on the value of the land only. Where a council desires to borrow money a poll of the ratepayers is required (1) to authorize the loan; (2) to decide the basis of rating for interest and sinking fund. All such polls have been decided in favor of rating on unimproved land values. A proposed loan may be rejected, but the land value basis for the rate always wins. This is the more notable because landowners only are permitted to vote at a poll deciding the incidence of a rate. In 1914 the value of land in all municipal areas outside the City of Sydney—which does not include the suburbs, was £54,553,024. The total rates imposed amounted to £1,029,985. In that year 149 councils rated entirely on land values, while 35 councils, most of them in country districts, rate partly on improved

values. The amount of revenue so raised in most cases is small, as most of these improved value rates are for minor services of a more or less special character. Rating on improved values, however, is dying out. Councils are giving it up without even a poll of the ratepayers to make them see the justice and necessity of the land values system. Where an improved value rate is imposed it only requires a little vigorous local opposition to kill it. In some cases an active man is wanting, in others the amount of the rate is so small that it is hardly worth bothering about. Throughout the State not more than one per cent. of the local taxation is on improvements.

THE EXAMPLE OF SYDNEY

The "city" portion of the capital—Sydney—was not affected by the Local Government Act. The demand for rating reform was so strong that in 1908 the city council was given power to put its rates on unimproved values. It was also empowered to collect the penny land tax without an exemption, which it proceeded to do at once. It was soon found that there was a "joker" in the Act and that it was impossible to apply it to the original city rate. So the council imposed 1s. 9d. on the assessed annual value and one penny in the pound on the unimproved land value. The latter rate was increased to 1½d. in the pound in 1913. All efforts to get the "joker" removed from the Act were unavailing until 1916 when for the first time one consolidated rate of 4d. in the pound was imposed on the unimproved value of the land.

Now as to the effects of the change. Whether an owner is a manufacturer, merchant or an ordinary householder is immaterial. If his use of the land is efficient in proportion to its value he pays less in rates under the new system. *It puts a premium upon effective use of land, and a penalty upon the owner of idle land, or land with out-of-date improvements upon it.* The best way to show its operation is by actual examples.

EFFECT OF THE NEW RATING IN THE RESIDENT AREAS

In a short typical suburban residential street in a thickly populated area there were 46 ratable properties. The council seized the opportunity of a change in the incidence of the rates to increase them by 48 per cent. In spite of that fact the total rates were reduced upon 39 of the houses by £11 2s. 7d. On four houses there was a nominal increase of 9s. 6d. and on three vacant areas an increase of £7 12s. 4d. On a dozen vacant areas in the same municipality varying in value from £80 to £2,000 the rates in 1907 on the rental value were £22 12s. 11d. In 1908 on the unimproved value they were £132 14s. 2d. On another property the old rates were £17 0s. 8d. and the new £141 6s. 8d.

In a sparsely settled suburb the results are of a similar character. On one side of a fairly long street there were 50 cottages and some vacant allotments. On the other

side a big block of vacant land. The council increased the total rates in this case by 50 per cent.

Where land was vacant in the city the rates were increased by 56 per cent. Here is an example. Vacant land value £30,000. Five per cent is taken in such cases to be the assessed annual value. The rates in 1915 were £318 15s. In 1916 on land values only, £500, an increase of £181 5s. or 56.86 per cent.

But the biggest increases were on "improved" properties which were assessed at less than five per cent. of the unimproved value. Though the land was used, yielding substantial rents in some cases, the rates were actually lower than they would have been if the land were vacant. Here are examples:

Property	Rates 1915	Rates if vacant 1915	Rates in 1916
Warehouse, shops, etc.	£1,179. 7.5	£1,278.10.0	£2,013. 6.8
Bank	1,168.16.6	1,190. 0.0	1,866. 3.4
Shops, etc.	430.16.0	531. 5.0	833. 6.8
Hotel and shops	301.15.0	324. 1.3	508. 6.8
House and cow run	139.18.9	199. 3.6	312.10.0
House	103. 8.6	146. 4.3	229. 7.4
Shops, etc.	378. 7.3	425. 0.0	666.13.4
Hotel	204. 7.3	212.10.0	333. 6.8
Club	602.10.0	637.10.0	750. 0.0

In addition to properties of this character there were a number where the assessed annual value was in the neighborhood of five per cent. of the unimproved value. Here is a notable instance. The best situated hotel in the city for a bar or drink trade is at the corner of George and King streets. It is a very old two-story building. Its assessed annual value is £5,327. Five per cent. of the bare value of the land is £5,275. So that the yearly ratable value of the improvements is only £52. Particulars as in the previous table are:

Property	Rates 1915	Rates if vacant 1915	in 1916
Hotel	£1,125.9.9	£1,120.18.9	£1,758.6.8

INCREASE OF IMPROVEMENTS UNDER THE NEW RATING

In the main portion of the city there are a number of old worn-out buildings, the only attractive thing about many of them being a new front. This class of property was specially favored under the old rating system. Now that the rates are on land values there are many solid increases. These people made considerable outcry recently. One business man was foolhardy enough to urge a return to the old system. He stood for a vacancy in the city council and was badly defeated. There are three solid reasons why the land value system has come to stay in the City of Sydney.

1. It is admittedly just.
2. It has reduced the rates of a large majority of the ratepayers throughout the whole area.
3. It is a great financial success.

The agitation, however, had the effect of securing a

duction in the rate this year from 4d. in the pound to 2d. There would have been no reduction had the old system continued. The effective land user would have been penalized as hitherto without remorse.

MANUFACTURERS AND MERCHANTS. Where the use of land is efficient in proportion to its value, the rates are lower on a land value basis. But if the improvements are out of date the rates are higher.

OWNERS OF IMPROVED PROPERTY. Same experience in the case of manufacturers and merchants.

OWNERS OF BUILDING SITES. Holding such sites vacant is less profitable because of a large increase in rates. Owners of vacant sites constitute a minority of property owners. A majority hold land for use, not speculation, where polls as to the incidence of rating have been taken the land users always win. Land value rating pays them. The only way the owner of a vacant site can get relief is to utilize the land.

RENTS. The tendency of rents in spite of an enormous increase of building, has been to rise. The population of the metropolitan area tends to increase more rapidly than the country. That is one of the many vicious effects of a protectionist policy, which stimulates town industries at the expense of country producers. A sound rating system is only beneficial within its own sphere. It cannot cure the evils of wrong methods in use by State and Commonwealth. Here is a table showing the movement in population from 1908 to 1915 in New South Wales.

Year	Metropolitan area	Country district
1915	763,000	1,105,644
1908	592,100	967,926
Increase	170,900	137,718

Taxed building materials and the growth of population have enhanced rents, although *land has come into the market very freely since rating on unimproved values was adopted.* The tendency of rents now, however, is downwards.

TO EXTEND THE LAND VALUES SYSTEM

While we raise one-seventh or one-eighth of our public revenue from the public land values fund—Nature's Treasury—six-sevenths or perhaps seven-eighths still goes to private individuals. To make good that loss we have customs, excise, income, stamp and other bad forms of taxation. Such taxation is concentrated upon persons occupying and using land, in proportion as such use is effective. Vacant land contributes no revenue under such methods of taxation. Our object is now to extend the land values system, thus broadening the basis of taxation so that each portion of land will contribute its share in proportion to its value. As in the case of local rating, this will lessen the tax burden where land is fully used, and increase it where it is idle or partially used. In this way we can emancipate industry from every burden. As Henry George put it, "It will raise wages, increase the earnings of capital, extirpate pauperism, abolish poverty, give remunerative employment to whoever wishes it, afford

free scope to human powers, lessen crime, elevate morals, and taste, and intelligence, purify government and carry civilization to yet nobler heights."

So far as we have gone in New South Wales our practical experience of land value taxation justifies the claims of the Prophet of San Francisco, whose visit to New South Wales was largely responsible for the measure of success which we have attained.

A. G. HUIE.