

THE BURDEN OF LOCAL TAXATION

A PRONOUNCED increase in the expenditure of local authorities seems inevitable. Higher costs in every direction have made it difficult to maintain the public services even at a pre-war standard. The urge is for still better services and, in addition, ever more duties are thrust upon the local authorities compelling what they would most like to avoid—a rise in rates.

Parliament has lately discussed these problems of local taxation. Further subventions are to be given "in relief of ratepayers" at the cost of the general taxpayers. The rateable values on which rates are levied and which are fifteen years out of date in England and Wales are now to be revised, the Inland Revenue taking over the work from the Assessment Committees. It is said this will take some five years. Such a revaluation will but reveal how iniquitous the present rating system is. Its evils will be greatly aggravated. If it produces revenue it also causes injury by the very manner in which the rates are levied. This is universally admitted. The need for radical reform is imperative.

Defects of the Present Rating System

The present system of local rating is based upon an assessment of the annual rental, that is to say, the presumed rent of premises if let from year to year *in their existing state*. It includes the value of the buildings and other improvements as well as the land, but the valuation depends entirely upon the use which is made of the land at the time of valuation. If the land is unused, it is not rated; if the land is badly used, it is rated at a low figure no matter how valuable it is. Conversely, if the land is well developed, the assessment is high.

This system puts a penalty upon the use of land for housing or business or industrial purposes; while it gives a premium to those who hold land out of use or use it badly.

The burden is borne by the tenants or occupiers who actually use the land. It is an addition to the rent which has to be paid for the occupancy of property.

The poorer section of the population, whose expenditure upon house rent forms a very large fraction of their incomes, must pay relatively more of the local rates than those who are better off.

The results of this system are writ large over our towns and cities (and in rural districts as well), in slums, high rents, unequal development, land unused or badly used, and high prices for land.

The burden of the rates as at present levied falls with especial weight upon *new* buildings and improvements and is a standing barrier against all development, whether undertaken privately or projected under Town Planning Schemes. The effect of any levy or charge upon development is to make new accommodation scarce. Old buildings are in greater demand. Their life is prolonged and this leads to overcrowding and inflated rents.

The private appropriation of land values, which are everywhere due to community influence and public expenditure and which steadily increase from year to year, progressively increases these difficulties.

What is the Remedy?

Three propositions are discussed: (1) Local authorities to get increased subventions from the Treasury so as to reduce the burden of local rates; (2) the introduction of a local income tax; and (3) the rating of land values and

the relief of houses and other buildings and improvements from the rates now levied on them.

Subventions to Local Authorities?

By Government grants in relief of rates, the problem is not solved. Much of our national revenue is derived from indirect taxation and a substantial part from taxes on relatively small incomes. So long as that continues the consumer will simply be carrying much the same burden, as taxpayer, which he had been bearing as ratepayer. Even if the revenue for this purpose could be raised by, say, increasing the income tax, the result would simply be to subsidize the landowners, increasing the price of land, and encouraging land speculation and all the evils referred to above. Local authorities must, therefore, be given a new system of rating.

Local Income Tax?

The first difficulty with regard to a local income tax is that no Chancellor of the Exchequer is likely to give up any part of this source of revenue to the local authorities. There is no possibility of appreciable increase in the income tax and there is a widespread demand for reduction.

The second difficulty is to localize income. Is it to be assessed in the district in which the taxpayer earns it? If so, people who live in residential areas and earn their living elsewhere will contribute nothing to the district in which they live; and a small minority who earn their livings in the area will bear the whole burden. Or is it to be assessed in the district in which the taxpayer resides? If so, the well-to-do residential districts will have ample revenue and a low rate of taxation, while the industrial districts will have a heavy rate of taxation which will fall mainly on the wage earners, who live in them.

Even if a local income tax were practicable, any reduction so effected in the rates levied under the present system would very soon be nullified by an increase in rents. It would also entrench the monopoly of valuable vacant land which is exempt to-day and which would obviously continue to be free from income tax as long as it produced no income.

The Rating of Land Values

The value which attaches to land apart from buildings and improvements is a fund or source of revenue which rightfully belongs to the community. The just and practical rating reform is to rate land values. For this, the necessary basis is a valuation, which would be periodically revised, assessing on each occasion the land value of every plot or holding—that is, the true market value of the land alone, disregarding any buildings or other improvements standing upon that particular piece of land.

The Land Value Rate would be borne by the party or parties who are now privileged to engross the publicly created *land value* of the rateable property. Rate levy and collection would cause payment to be made by the owner of the freehold, or, where the land is subject to long leases which can be sub-leased for a consideration (the land having risen in value since the original leases were granted) payment will be made by freeholder and leaseholders in proportion as they share in the land value. The practical details of how this can be done were well worked out in the provisions of the Finance Act, 1931, and of the London Rating (Site Values) Bill, 1938.

Land Value Rating in Practice

Each separate land holding would stand charged with the Land Value Rate which the local authority finds it necessary to levy. The system would apply in town and country alike and to all land whether residential, commercial, industrial or agricultural. Its advantages may thus be summarised:—

(1) Local authorities would have command over revenue resources which are now denied to them by the exemption of land values from contribution and by the Derating Act. Rural Districts, in particular, no longer have the stigma of "poor areas," obliging them to beg at the Exchequer for the subventions which are more and more making local self-government a mockery. The door would be open to the plenteous fund of land values lying at their feet.

(2) Local authorities would not be compelled to restrict and penalise enterprise, to make housing scarce and dear, by imposing rates upon buildings and other improvements.

(3) The Land Value Rate would obtain revenue without placing any charge upon production or taking from any one the results of his industry. The work of man's hands would be exempt from assessment.

(4) The Land Value Rate could not be "passed on" in higher prices or rent for land. Much as the economists may disagree, they are at least unanimous on that point. *A tax on the recipients of land rents, which is proportionate to the rent, stays put.*

(5) The continued payment year by year of the Land Value Rate, whether the land is used or not, would make the withholding of land "for a rise" highly unprofitable. The owner would be impelled to put the land to adequate use or allow others to do so. The available supply of land would be increased. Monopoly prices and monopoly rents would fall.

(6) The lifting of the rates of buildings and their transference upon land values would bring especial relief to the occupiers of houses, shops and commercial offices who up till now, thanks to the Derating Act and the tax-exemptions of vacant lands, have borne the burden almost exclusively.

(7) Improvements being rate-free, all new building development would be advanced. The cost of housing accommodation and of shops, warehouses and business premises would be reduced. The houses for which people search in vain to-day would take quicker shape.

(8) The provision of allotments and small holdings would be facilitated. The whole standard of agriculture would be raised with freedom for initiative, and in a natural and spontaneous way. The incidence of the Land Value Rate would insure against misuse or neglect of the land. There need be no place for soul-destroying coercive executive controls (with their penalties for disobedience) and the country would be rescued from the wasteful subsidies which sooner or later pass into higher prices for land.

Proved by Experience

The rating of land values, with reduction of rates on improvements or their total relief, has been in operation for many years in a number of countries. In all these cases, to the extent to which it has been adopted, it has justified the claims made on its behalf, and has gained complete public approval. Experience has proved how

easily and fairly the land value can be assessed separately from the buildings and other improvements that stand upon the land.

The countries include Denmark, Queensland, New South Wales, Victoria, South Australia, Western Australia, New Zealand, the Transvaal, Orange Free State, Cape Province, Natal, the Western Provinces of Canada, California (Irrigation Districts), Pennsylvania (Pittsburgh and Scranton). The Danish example is particularly noteworthy because the policy is carried much farther in the country districts than in the towns. Its benefits are appreciated by none more than the small farmers, independent proprietors as they are.

In this country hundreds of municipalities have declared their approval of the land value rating system. The list of them, together with relevant literature, will be supplied on application to the United Committee.

The burden of the rates and who should pay them is the over-ruling question in local government and municipal finance. Local Authorities supporting the demand for the Rating of Land Values can make it effective by passing resolutions in favour of the principle, inviting other Local Authorities to take the same action, bringing the matter before conferences of Local Authorities, and using every effort to impress upon Parliament the urgency of the necessary legislation.

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HOME COUNTIES LIBERALS

At the Annual General Meeting of the Home Counties Liberal Federation, held on Saturday, March 20th, at Church House, Westminster, the following resolution was carried unanimously:—

"That this meeting of representatives of the Home Counties Liberal Federation are convinced:

- (a) that no cure of the economic ills which beset our country can be found by the transference of the private ownership of land to the hands of the State;
- (b) that the only solution is the destruction of land monopoly. With this end in view we are resolved:
 - 1.—That taxes and rates shall be levied on the annual site value of land thereby restoring to the community the land value which it has created, and preventing the withholding of land from use.
 - 2.—That taxes and rates now imposed on buildings and improvements and the products and processes of industry shall be correspondingly reduced."

Over 200 delegates were present from Berkshire, Bedfordshire, Buckinghamshire, Essex, Hampshire, Hertfordshire, Kent, Middlesex, Oxfordshire, Surrey and Sussex.

The resolution was moved by Mr. Stephen Martin, the Chairman of the Chislehurst Division Liberal Association. He is to be complimented on his vigorous and vigilant advocacy of Radical principles in Liberal circles and may it be that this notable demonstration by the Home Counties Federation will carry its influence wider to restore the land values policy to its place in the forefront of Liberal policy.