

## MEMORANDUM ON METHODS OF LOCAL TAXATION

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The present system of local rating is based upon an assessment or valuation of landed property.

The assessment is of the annual value, that is to say, of the value if let from year to year. 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 lack of a general valuation of the market value of land (intended to be used as a basis for taxation) involves the payment of arbitrary and exorbitant prices for land required for housing and other public purposes. It makes the preparation of adequate town-planning schemes a matter of extreme difficulty, involving on the one hand fantastic claims for compensation and on the other almost complete failure to operate the "betterment" provisions.

The steady increase of land values year after year, due to community influence and public expenditure, progressively increases all these difficulties.

### INCREASED EXCHEQUER GRANTS ?

What is the remedy ?

Any substantial increase in Exchequer grants is not to be expected. They already amount in total to a sum approaching that raised in rates. Even if large Government grants in relief of rates were forthcoming, the problem would be no nearer solution. If rates were reduced, rents would go up. Half of our national revenue is derived from indirect taxation. The consumer, as taxpayer, would simply be subsidizing 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.

Only two alternative methods need be considered. One is a local income tax; the other is the rating of land values.

### A LOCAL INCOME TAX IMPRACTICABLE.

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. The local rates amount to about half of the present yield of the income tax, and it is seriously suggested that the point of diminishing return from income tax has nearly been reached.

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.

In fact, a local income tax is impracticable. But even

if it were practicable, it would result in a reduction of the present rates and a corresponding increase in rents. The owners of land would benefit. It would simply entrench the monopoly of valuable vacant land which is exempt to-day and as long as it produced no income would obviously be free from income tax.

### THE RATING OF LAND VALUES.

The only practicable new source of local revenue is therefore a rate on land values.

Such a rate would be based upon a valuation of the full market value of each site disregarding the buildings or other improvements upon it. It would be assessed upon and paid by those who are entitled to the land value, that is to say, upon the freeholder or where the land is subject to a long lease and has gone up in value since the lease was granted partly on the freeholder and partly on the lessee according to their share in the value. (The practical details of how this can be done were well worked out in the land-value tax provisions of the Finance Act, 1931, which have since been repealed.)

The advantages of substituting land-value rating for the existing system may be summarized as follows :—

(1) The rate would be paid entirely by the owners of land and would not be shifted on to tenants, as present rates are. This proposition is stated by all economists. One reason why it is so, is that the land-value rate would fall on unused land. The owners of such land would be forced to use it, or to let others use it. The available supply of land would be increased, and owners would be forced to take less for land rather than more. The landowner, therefore, cannot shift the burden on to the tenant.

(2) The cost of housing accommodation would be reduced by the amount of the present rates, which now fall on tenants. It would be very much easier to provide houses at rents which people could afford to pay.

(3) The cost of shops, warehouses and other business premises would also be reduced by the amount of the present rates. This would be an advantage to the whole community, as the existing rates form part of the oncost of conducting these businesses and are passed on to the consumers in the price of commodities.

(4) Land which is held out of use, and at present pays no rates, would be forced into use, as it would be rated on its real value. Land would become cheaper. Building and other uses of land would be stimulated.

(5) Development of land would be encouraged, because the improvements erected on it would not be rated. Employment would be increased.

(6) The reduction in the price of land, and the existence of a valuation revised from time to time, would make it easier to acquire land for public purposes on reasonable terms.

The rating of land values has been in operation for many years in New Zealand, Australia, South Africa, and Denmark and elsewhere. In all these cases it has been successful and gained complete public approval. Their 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.

Hundreds of local authorities in this country have approved the principle. With the ever-increasing responsibilities thrown upon them by Parliament the time is now ripe for an insistent demand by local authorities for power to rate land values and relieve the excessive burdens imposed by the existing system of local rating.

*Candidates at Municipal Elections should make the Rating of Land Values an issue and when elected should get their Councils to pass resolutions in favour of the principle, invite other local authorities to take the same action, bring the matter before conferences of local authorities or call special conferences for the purpose, and use every effort to impress upon Parliament the urgent necessity of legislation for the Rating of Land Values.*