

Wellington Survey Emphasises Advantages of Site - Value Rating System



UNDER THE NEW ZEALAND Rating Act of 1925 local authorities may raise revenue by taxes on one of the following bases of assessment:

- (a) Annual Value: The rent the property would let for from year to year, with certain allowable deductions.
- (b) Capital Value: What the property as a whole may reasonably be expected to sell for on the open market.
- (c) Unimproved Capital Value: What the land alone may reasonably be expected to sell for on the open market.

Local authorities may decide for themselves which system to adopt, but the ratepayers themselves may adopt or abandon the unimproved value system by popular poll. Many authorities have in fact adopted the unimproved value system in this way.

Recently pressure has been arising in New Zealand from various quarters for a full appraisal of the merits and demerits of the alternative systems. Comparisons have been difficult to make in the past because of a lack of assessments for all three systems in many areas. In the 1964 revaluation for Wellington, however, it was decided to make new assessments under all three systems so that the public and local councillors could clearly see what the difference would be if the city were to change from the present system of unimproved value. A detailed analysis of the valuation list has now been published.*

The main conclusion of the Valuation Department is that if the individual home owner's share of the rate levy is considered to be the criterion for judging the merit of the alternative rating systems, it would appear that in the city of Wellington *the unimproved system benefits the greatest number*. Taking broad categories of land use, the assessments show that under U.C.V. residential properties would pay 56.4 per cent. of the total burden. Under A.V. they would pay 67.3 per cent. and under C.V. they would pay 62.8 per cent.

The burden carried by industrial properties would not vary significantly between the U.C.V. system and the C.V. system. Adoption of the A.V. system would increase the industrial burden by 4 per cent. of the total tax take.

* *A Comparison of Rating Systems: The City of Wellington*.
Published by the Valuation Department of New Zealand.

Commercial properties, however, would pay less under either the C.V. or A.V. systems. (The general classification of benefits and penalties by class, while being significant, tends to hide the specific shifts in tax incidence as between properties of different characteristics within the same class).

As far as residential properties are concerned, the older houses constructed before 1939 pay more under the U.C.V. system than they would under the alternatives. This is because land values are relatively high in relation to improvement values; thus the U.C.V. system is a spur to replacement. Multi-unit flats, however, would pay twice as much under either A.V. or C.V. systems. Large houses converted into flats would also pay more. Moreover, if the U.C.V. system were to be abandoned, the burden on vacant land would be reduced by more than 30 per cent. Vacant land and properties account for 7 per cent. of all rateable properties in Wellington and are a significant source of rate income. The reduction of the burden would give rise to increased land values.

Where existing improvements are inappropriate for an area, the U.C.V. system acts as a spur to renewal and new investment. The central business district of Wellington contains less than 2½ per cent. of total taxable property yet under U.C.V. it produces 28 per cent. of the city income. The fact that there are few vacant sites in the central area demonstrates the efficiency of the system in ensuring that land is put to profitable use.

Suburban shops would not be significantly affected by a change to C.V. but would have to pay more under A.V.

As far as industry is concerned, a change in the rating system would ultimately add to production costs, since new plant and machinery would then be assessed for taxation: most modern industrial plant is very valuable.

This survey indicates clearly the pressures that the site-value rating system exerts on land use patterns. A change to either C.V. or A.V. in Wellington would be a regressive step as far as the economic development of the city as a whole is concerned. If the U.C.V. system were to be abandoned, the impetus for constant change, adjustment and improvement would be lost.

There are many lessons in this report for people in Britain. How long will we continue to tax improvements in spite of the evidence of the regressive nature of such a system?