

PROFESSIONAL VIEWS ON LOCAL TAXATION REFORM

THE INCORPORATED Association of Rating and Valuation Officers has recently issued, under the title "Interim Report on Reconstruction," a useful and informative survey of our existing method of local taxation, with some suggestions for administrative reforms.

After reviewing the consideration that was given by the 1912 Departmental Committee on Local Taxation to proposals for a local income tax, the Association comes to the conclusion that no scheme of raising local revenue by means of an income tax is practicable.

On the rating of site values the Association say:—

"The arguments advanced by those in favour of the rating of site values are:—

- (a) Site and buildings differ so in character that they ought to be separately valued.
- (b) Site value should bear most or all of the burden of taxation since the value of the site arises largely without effort on the part of the owner, while the value of buildings is created and maintained at the personal expense of the owner.
- (c) The shifting of the rate burden from buildings to land would encourage building improvements.
- (d) Unused and vacant land would be rated which would tend to the best development of land.

"The arguments advanced by those against the rating of site values may be stated thus:—

- (a) It would be inequitable to select a special class of the community (i.e., owners of land) for the imposition of a new and special burden.
- (b) While community influences may increase the value of land they have the same effect on public utility undertakings and therefore it would be unfair to tax only capital invested in land.
- (c) A tax on capital value may fall upon an owner not deriving any income from the property and not able, owing to circumstances, to dispose of the property.
- (d) Land value taxation ignores both ability to pay and benefits received.
- (e) Land value taxation would free all who were not owners of land from liability: (these would be largely those who derive the greatest benefit from local government expenditure).
- (f) It is illogical to tax site values in place of buildings when the main increment in site values can be ascribed directly to the erection or prospective erection of these buildings. The buildings themselves should naturally be taxed.

"These factors suggest that a complete turnover from rating to a system of land value taxation is impracticable and that it would provide neither an equitable nor a successful substitute. Nevertheless we have recently

expressed our approval in principle, of the proposal to impose a separate levy on increased annual site values as recommended in the Uthwatt Report. (*Expert Committee on Compensation and Betterment. Cmd. 6386.*) This proposal differs from most of the other schemes, in that the levy is on annual values and that it is not intended to replace the present system, but seeks merely to attract to the public revenue (either local or national) some proportion of the increase in site values arising purely out of community influences.

"We are of the opinion:—

- (a) that any form of assessing rates by reference to income is impracticable;
- (b) that the taxation of site values has much to commend it, but as an alternative method of raising local revenue it is undesirable;
- (c) that the rating of annual site values as proposed in the Uthwatt Report appears to be practicable and provides the best method yet advocated for securing 'betterment';
- (d) that the present system of rating, with or without a practical scheme for rating site values, is better than the proposed alternatives, has stood the test of time and is relatively simple to understand and administer. This view is, however, qualified by the opinion of the Association that the system has certain defects, many of which are capable of improvement. These will now be examined and recommendations made."

The conclusions arrived at by the Association appear to imply that although they are not agreeable to the present system of local rating being completely replaced by rating of site values, they are willing to have it supplemented or partly replaced by a rate on site values. If that interpretation is correct, we welcome such an expression of opinion by a body of officials who are practically and professionally engaged in the work of rating and valuation. Study of the way in which that system actually works in New Zealand, Australia, Denmark and elsewhere will we hope convince them that it is both practicable and desirable to go further.

The objections made against the rating of site values are in fact not of a substantial character. So far as the equity of the proposal is concerned, it may be well to ask the converse question: Is it right that one section of the community should get a special and peculiar benefit from public expenditure and the activity of the community generally without making any special contribution to the community for such advantages?

It may be true that public utility undertakings, which are monopolies, benefit by community influences, but the State has taken upon itself the duty of regulating to some extent the charges

which these monopolies may make. If this has not been effective, there is a case for improvement; but that is no argument against rating site values. We may also observe that such undertakings usually occupy very valuable land, including valuable wayleaves over land, which should be taken into account in rating site values.

The objection that some owners are unable to dispose of their land seems to be an irrelevant argument. The cases in which there is any legal barrier to disposing of land are extremely rare. The policy of the law is against the imposition of any obstacle to disposing of land. In any case, the question is what is its value? If it has a value to the owner, there is no reason why he should not be rated on that value.

The Association appears to assume that rating of site values must be upon the capital value, but we would point out that the Bill introduced by the London County Council in 1938 proposed to levy the rate on annual site value.

It is surely a mistake to say that rating of site values does not take account of benefit received. Is not the site value in its nature a benefit which is received from the community? If it be said that the occupiers of rateable property benefit by public expenditure, let it be remembered that under the existing system they are virtually paying twice—once in rates, and again in rent.

We are quite unable to see any logic in the argument that site values are due to the erection or prospective erection of buildings, and therefore the buildings should be taxed and not the site. Site values are not created by the erection of buildings; on the contrary, the erection of buildings (if they are properly adapted to the site) is merely the means of reaping or realising the site value that is already there. If someone erects the most valuable building in a spot where no one wishes to live or carry on business, he will not create an atom of site value.

As we have on several occasions explained the defects of the Uthwatt Committee's proposal for a levy on so-called increases in site value, we need not repeat the arguments here.

On the whole, however, it is encouraging to see that a body which has done much to raise the professional standard in matters of local rating is beginning to give serious consideration to the rating of site values.

2s. A PERPLEXED PHILOSOPHER. Ethics of the Land Question and Examination of Herbert Spencer's recantation of his earlier declarations. By Henry George.

2s. 6d. LAND AND FREEDOM. A new, comprehensive and up-to-date treatise on Land Value Taxation. By Frederick Verinder.

2s. 6d. LAND VALUE RATING. Theory and Practice. A handbook for all interested in municipal finance and the rating question. By F. C. R. Douglas, M.A., L.C.C., M.P.

1s. WHAT'S WRONG WITH TAXATION? By Judge Jackson H. Ralston.