

Site-Value Rating : Objections Answered

The objections to site-value rating which are current today are mainly those contained in a report of a study group of the Royal Institute of Public Administration, published in *New Sources of Local Revenue* (George Allen and Unwin, 25s.), which drew largely from the earlier report of the Simes Enquiry Committee (Ministry of Housing and Local Government, 1952).

As the findings of these bodies are now regarded as standard references we think it essential to place on record their refutation, which follows the study group's report given below.

UNDER most systems of site-value rating, real property is assessed on its capital value based on market selling prices, but the improvements or buildings are derated and the rate is thus levied only on the land or site; for this reason, it is often called a rate on the unimproved capital value of land. In Australia all local authorities in New South Wales and Queensland, all rural authorities in Western Australia and some local authorities in other states levy rates based on unimproved capital values: for the country as a whole, nearly two-thirds of the local authorities (covering 92 per cent. of the total area under local government) levy rates on unimproved capital values. About one in three of local authorities and *ad hoc* boards in New Zealand rate on site values and about one in ten in South Africa (almost exclusively in the Transvaal), while others levy different rates in land and improvements. In the western provinces of Canada, local authorities exempt improvement from rating, usually to the extent of one-third of their value. Of the European countries surveyed, only in Denmark is a form of site-value rating used; here separate rates are levied on land and on improvements, the latter bearing a lighter burden. The tax on land values, which developed from a "fertility" tax on land known since the seventeenth century, operates successfully. There is also a minor tax on the increase in land values imposed since 1932 and aimed to curb land speculation. In the countries where site-value rating is adopted it appears to be successful, but it should be noted that of the countries surveyed in this report, with the single exception of Denmark, it is used in countries of extensive land areas and new urban development.

Many arguments are advanced in favour of site-value rating. Firstly, it is said that a site-value rate encourages the development of land because improvements are not rated at all while the site is taxed and it thus pays the landowner to develop his land. Secondly, the site-value rate enables the community to tax the gains accruing to the owner of land which, by virtue of inherent or outside factors, may appreciate greatly in value. For example, a site on the edge of an expanding town will have a devel-

opmental value far above its existing use value as agricultural land, and a site-value rate will reflect this. Thirdly, it is suggested that the site-value rate is borne by the owner and not the occupier. Finally, with site-value rating, vacant building plots may be rated.

We accept the argument that site-value rating encourages the development of land. For that reason it is a useful tax, especially in an expanding country with a large area of land, but it is of less interest to a country like Great Britain where planning regulations are aimed at controlling the development of land at the proper pace and for suitable purposes. It is also true that site-value rating taxes the development value of land, and it would admittedly be desirable to tax gains resulting from community development; but this could equally be achieved by a rate based on the capital value of both land and improvements, or by a capital gains tax. We consider, however, that it is a fallacy to suppose that the landowner bears the whole burden of the site-value rate. As with annual-value rating, the owner will pass on to the occupier as much of the rate burden as market forces of supply and demand will permit. Vacant sites may easily be taxed by other means than a site-value rate. Finally, in very many cases the site-value rate would come out of the same pockets as the present rate is supplemented, e.g. in the case of owner-occupiers, municipal house tenants, industrial concerns and others owning their own premises. On examination, then, the advantages to be derived from site-value rating in Great Britain appear to be limited.

The possibility of rating site values in the United Kingdom was the subject of an enquiry by a government committee which reported in 1952. A majority of the committee came to the conclusion that site-value rating was neither practicable nor desirable. A minority of three, however, supported it in principle and thought that it could be worked even with the existence of development charges under the Town and Country Planning Act of 1947.

The majority report of the committee found serious difficulties in the valuation of sites for rating. It was pointed out that, in practice, valuation is based on assessment of the full capital value of site and improvements. The site value can then be ascertained either by valuing the buildings and deducting this from the total (the "residual" method), or by assuming a more or less arbitrary relationship between site and improvements and dividing the valuation accordingly (the "apportionment" method). The committee's conclusion was that such an assessment was bound to be artificial, would not be understood by the ratepayer and would therefore probably be disputed by him. Moreover, site valuation would make further demands on the limited number of trained valuers available.

On the assumption that the value of a site was between 20 and 50 per cent. of the value of a total hereditament, the majority report estimated that the assessment of sites might add between £100 millions and £300 millions to the then rateable values in England and Wales. This estimate was based on the assessment of annual values used for income-tax and rating purposes, with allowance for the possibility of under-assessment. Site-value rating is usually conceived as a supplement to full rating. In this case, with a rate of 2s. in the £ (as was suggested in the Bill presented to Parliament by the L.C.C. in 1938-39), the yield of the rate would be in the region of £10 millions to £30 millions. This is not a very large sum in relation to total revenue for ratefund services of £992 millions in 1953-54. If, however, a site-value rate were conceived as a substitute for the existing rating system, it would be necessary to raise approximately £401 millions (the yield of rates and payments in lieu of rates in 1955-56) from the assessed values of sites alone. The rate poundages to be levied would depend on what the rateable value of sites turned out to be, but, taking the estimate made by the committee in 1952, i.e. between £100 millions and £300 millions, the average rate poundage for England and Wales would be anything from 27s. in the £ on a basis of £300 millions to 80s. in the £ on the basis of £100 millions. With a rate of tax at this level, the anomalies of a system with such a narrow base would be grossly accentuated. The recent revaluation would suggest higher figures for site values than those given above with corresponding increases in the yield of site-value tax. There is no reason to suppose, however, that this would be so great as to invalidate our general conclusions.

As a supplementary measure, site-value rating is not likely to yield a great deal of revenue. As a substitute to the present rates, it would probably have to be imposed at very high poundages. In either case, the problems of valuation might well lead to serious difficulties, and the higher the rate of site tax, the greater the injustices which would arise in the incidence of the

tax. We believe that any advantages to be derived from site-value rating could be obtained in large measure with other methods of rating. Our conclusion is therefore against a site-value rate.



Objections Answered

The first paragraph is a fair statement of fact. In it is the frank admission that where site-value taxation is in operation it is successful. The final sentence, however, contains the suggestion, to be repeated later, that it would not be successful where land is more fully developed and where there are less extensive land areas. The argument (in any case invalidated by "the single exception of Denmark") is not substantiated. It is certainly not "of less interest" in Great Britain that idle and underdeveloped land should be fully developed. Indeed, the less land there is available for "urban expansion" the more need to ensure that what land is available is fully used and not kept off the market, thus aggravating the alleged shortage.

"... it is suggested that the site-value rate is borne by the owner and not by the occupier." This is not a suggestion, this is an economic fact accepted by both advocates and opponents of site-value rating alike, and recognised by all economists.

The reference to planning regulations is completely irrelevant. Site-value taxation works harmoniously with town planning in Denmark and other countries, and quite wrong is the suggestion that all available land remains undeveloped solely because of planning policy. (Where planning restricts a plot of land to a particular use, its market value would obviously be affected — and also the land-value tax.)

"It is also true that site-value rating taxes the development value of land, and it would admittedly be desirable to tax gains resulting from community development, but this could equally be achieved by a rate based on the capital value of both land and improvements, or by a capital gains tax." The statement that a rate falling on the capital value of both land and improvements achieves the same results as a tax on site values alone shows an imperfect grasp of the principles of land-value taxation. The whole point about site-value rating is that it exempts improvements. You could of course get rid of the bath water by throwing out both water and baby. A capital gains tax is so completely alien to the idea of site-value taxation in conception, practice and effects as not to merit further comment.

A capital gains tax, as commonly advocated, also ignores the vital distinction between land and buildings;

further, it assumes that the benefits of increased land values are enjoyed only when they are sold or capitalised. This economically unsound, confused and half-hearted measure would, where it did not inhibit sales of property, give rise to all kinds of evasions and subterfuges in the property market.

"We consider, however, that it is a fallacy to suppose that the landowner bears the whole burden of the site-value rate." This appears to be an attempt to compromise. Either the tax is paid by the landowner completely or it is not. In practice a landowner and leaseholder may "share" the land-value rate, *but only in so far as the landowner and leaseholder share the rent of land*, the economic rent of a site having increased beyond that agreed at the time the lease was taken out. Only in that sense can it be said that the burden is "shared," but in that sense both landowner and leaseholder are theoretically landowners and neither of these interested parties will be able to pass on their tax liability to anyone else. Further it is the "market forces of supply and demand" which ensure this. E. R. A. Seligman, in his "Shifting and Incidence of Taxation," wrote:

"If land is taxed according to its pure rent, virtually all writers since Ricardo agree that the tax will fall wholly on the landowner, and that it cannot be shifted to any other person, whether tenant, farmer or consumer . . . The point is so universally accepted as to require no further discussion."

"Vacant sites may easily be taxed by other means than site-value rating." What "other means"? This statement can carry no weight without further explanation and it certainly provides no argument against site-value rating.

" . . . the site-value rate would come out of the same pockets . . . " If Tom, Dick and Harry pay rates under one system they are likely to pay them under another, *but not necessarily in the same proportion*. The incidence of the site-value tax is all important. This is blandly ignored.

References to the Simes Committee. The findings of this committee are no longer valid since its terms of reference demanded that it *had regard to the then financial provisions* of the Town and Country Planning Act. These provisions have been repealed. However, to take up a point or two unaffected by the Act: sympathy for the ratepayers' lack of understanding is misplaced. The ratepayers would be hard put to understand how the assessment of their property is arrived at if they were obliged to investigate the technical details of hypothetical values and hypothetical tenants in 1939 — the present rating method. There is nothing simpler than the valuation of a site, disregarding all buildings and improvements. As for assessments being "artificial" and therefore "disputable," it is difficult to take this point seriously when one considers the present system, to

which this criticism is more pertinent. There is nothing arbitrary about the market value of a piece of land, and in the long run it would make less, not more, demand on trained valuers.

The assumption that the value of a site was between 20 and 50 per cent. of the total hereditaments is so completely unreal and arbitrary as to be utterly worthless as a basis for argument, and yet strings of figures and conclusions are based upon this false premise. One can quote the City of London as an argument to prove the exact opposite. The City of London, which is roughly one square mile in area, has an estimated ground rent of **£150 million per annum**. *The total rateable value today is only 8 per cent. of this figure.*

Vital factors ignored in this argument are:—

1. Idle land is not included in rating assessments today.
2. Poor development on valuable land has a low rateable value (i.e. recent take-over bids).
3. Factories and shops are de-rated and agricultural land exempt.
4. Out-of-date valuation — residential property still assessed at 1939 values.

The high poundages argument is quite unreal. It presupposes that the total site value of land in Great Britain is only a proportion of the total figure assessed for rates. This is very wide of the mark. Today site value *alone* would be *well above* current rateable values. £7,500 per annum was asked recently for a site in Shoreditch. It was assessed as a car park at £300!

Whatever allowances one may make for the apparent complexity of the subject, it is evident that this study group has not done its homework.

Land-Value Rating

By Lord Douglas of Barloch, K.C.M.G.

In view of the wide and increasing interest now being taken in problems of local government finance and land use, this book is particularly timely. It explains the deficiencies and ill effects of the existing system of local rating. A careful examination is made of such proposed remedies as local income tax, extension of government grants, and equalisation of rates, and the reasons are stated why these are inadequate. The remedy advocated is the rating of land values and the exemption of buildings and improvements, and the economic and social effects of this proposal are fully considered.

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