

UNIMPROVED SITE VALUE — ITS HISTORY, DEVELOPMENT AND DIFFICULTIES

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This excellent contribution to the literature of site-value taxation is from the
New Zealand Valuer

IT HAS BECOME commonly accepted as the practice in New Zealand in making a valuation to assess the value of the land, then the added value which the improvements give to the land and so to arrive at a capital value. In a great number of valuations such as for sale and mortgage purposes what is required is a capital value and separate values for land and improvements are unnecessary. The assessment of a separate value for the land is required however when the valuation is to be used for rating or land tax, when a ground rent has to be assessed or when leased land is being freeholded.

This paper will be confined mainly to a study of the emergence of unimproved value for fiscal purposes and it will be shown that this is but part of the story of the development of new economic theories in the latter half of the nineteenth century. It is inextricably interwoven with the history of government in New Zealand in the period from 1876 to 1900 and was the inevitable result of the liberal thinking of those times.

The Provincial Period (1853-1876)

The early colonists coming in the main from Great Britain brought with them British institutions and traditions, one of which was the assessment of rating on the basis of annual letting value. They would never have heard of any theory to base taxes at either central or local level on the value of the land exclusive of improvements and it was therefore to be expected that the early provisions for rating in New Zealand were on the basis of the British precedent. During the provincial era from 1853 to 1876 each of the provincial legislatures was free to pass legislation governing the powers of local authorities and the systems on which they could levy rates. The annual value system predominated although there are instances where rating was permitted on land area or capital value.

However, the earliest record of the use of a land value for rating occurs

during this period. In the Province of New Plymouth, as it was then called, an option was given in 1855 for rating in the Town District to be either on acreage or on the basis of the value of rateable lands exclusive of "all buildings, erections, and improvements whatsoever." In Wellington for a period, rates could be levied on the value of the land but capital value was soon to replace it. In Marlborough in 1864, the Blenheim Board of Works was given power to rate on "the full and fair value to sell of all lands exclusive of improvements." These early experiments in the use of a land value for rating appear to have been designed to meet local conditions rather than being part of a wider movement towards replacement of the traditional form of rating.

The First Land Tax (1878)

When the provinces were abolished in 1876, regulation of local government passed to the central government and the Rating Act of that year made provision only for the annual value system.

In 1877 Sir George Grey became Premier and included in his cabinet were John Ballance and Sir Robert Stout who were amongst the more liberal thinkers of that era. The first significant point in the emergence of the concept of unimproved value came in 1878. Ballance was Colonial Treasurer and in the Financial Statement (the Budget) of that year he proposed the institution of a land tax. Vogel's public works policy of 1870 had resulted in large overseas borrowing for the construction of railways, roads and other works and Ballance said:

"One of the most marked effects of that policy has been to enhance the value of all property—especially land—which derives a permanent benefit from the extension of the railway system and other means of communication . . . We believe that no form of wealth is more legitimately called upon to contribute a portion of the public revenue of the colony than the value of land minus

improvements, which for brevity I shall call the *unimproved value* as no other commodity increases so rapidly in value from the increase in population and the national progress of a country. By exempting improvements we award a premium to industry and discourage a system of speculation which thrives only on the labour of others."

He outlined two ways in which unimproved value could be calculated, the first on a basis of classification with a fixed and arbitrary value attached to each class and the second founded on a direct valuation "according to the market value deducting improvements." By argument he discarded the first and adopted the second.

At the same time the customs tariff was to be reduced in an effort to shift the incidence of taxation. Remember this was 1878 and Henry George was yet to write *Progress and Poverty* which was published in 1879. No doubt Ballance was conversant with orthodox liberal thinking in England at that time and with the writings of John Stuart Mill who had formed the Land Tenure Reform Association in England in 1870. Here was a practical effort to adapt new thinking to New Zealand's problems. There was to be a flat tax of a half penny in the pound estimated to produce £100,000 on a total taxable unimproved value of £50 million.

Note what was probably the first use of the words "unimproved value." Ballance also indicated that local bodies would be empowered at their own option to accept the assessments of improved and unimproved values for the purposes of the Rating Act, an indication that rating on unimproved value was to be made an alternative method of rating.

In October 1878 the Land Tax Act giving effect to the budget proposals was passed and contained the following section:

Sec. 4 ". . . All land shall be valued at the capital value thereof to sell after deducting the value of all the improvements thereon."

The words "unimproved value" were not used but here surely is the first definition of such a term. A few months later Grey's Government was out of office and was replaced by a Conservative one which repealed the Land Tax Act 1878 before it became effective and replaced it with the Property Assessment Act 1879—"An Act to regulate the assessment of Real and Personal Property for the purpose of taxation." The basis of valuation was:

“... the estimated value of all property or interests in property . . . shall be the sum it might be expected to bring if offered at public auction for cash.”

The public auction approach was no doubt suggested by the need to have a basis for the valuation of personal property such as jewelry.

The Decade 1891-1900 Unimproved Value Emerges

The decade 1881-1890 had been one of almost continuous depression and widespread unemployment. This period of economic stress and social discontent so aptly described by J. B. Condliffe in “New Zealand in the Making” ended with the overthrow of the Conservative Government at the end of 1890 and the election of a Liberal-Labour Government which included six Labour members and had a majority of seven. Ballance became Premier to put into effect a programme which included:

- * the prevention of the acquisition of land in large holdings.
- * the resumption by the state of land urgently required for settlement and vigorous settlement of the land,
- * the repeal of the property tax and the introduction of a land and income tax.

Ballance did not have a majority in the Legislative Council, the retiring Premier having persuaded the Governor to make a number of new appointments to the Council and the “overwhelmingly Conservative Upper House dealt summarily with measures embodying important planks of the Liberal-Labour platform.”

However in 1891 the Land and Income Tax Assessment Act was passed. This repealed the Property Assessment Acts and instituted a graduated land tax and an income tax. Graduated land tax was an integral part of a programme for land reform designed to meet the demand from the land hungry for the breaking up of the large estates and was probably more important from this angle than as a means of finance. The tax was levied on the actual value (capital value) less value of improvements up to a maximum of £3,000. Actual value was defined as

“... the capital value for which the fee simple of the land . . . could be purchased for cash.”

For the particular purpose of a land tax, the land value was not assessed separately. It was derived by deducting

the value of improvements from the capital value. In 1893 the limit of £3,000 was removed and all improvements were exempted. The rate of tax was from 3d. at £5,000 to 2d. at £210,000 and above.

The success of the policy for breaking up the large estates is well known and need not be elaborated on in this paper. Associated with the graduated land tax was land legislation giving the state effective control over aggregation and initial residence and in 1894 the power to repurchase land, if need be compulsorily, from private owners for cutting up and closer settlement.

Local Land Taxation

Attempts were made to extend the taxing of land values to local body rating but the Legislative Council which still had a Conservative majority managed to defeat the measure by striking it out of the Rating Bill 1893 (by five votes) and deferring the Rating on Unimproved Value Bill in 1894 (by two votes) and again in 1895 (by one vote).

The liberal thinking of the time is best illustrated by quoting extracts from the speech of Mr. P. J. O'Regan in the House of Representatives during the second reading of the Rating on Unimproved Value Bill of 1895. He said:

“... there are only two systems of taxation—the taxation of the products of labour and the taxation of the unimproved value of land. Now if we tax the products of labour we make them scarcer and I would ask if any man in his right senses would discourage industry. Is it just or expedient to fine men for making improvements? . . . what greater fallacy can there be than to uphold a system which harasses a man for making improvements. We are merely benefiting a set of men who are holding land idle while they are waiting for the progress of the colony to add to its value—men who, no doubt, are thinking that the progress of the country will enable them in time to reap where they have not sown. Under the present system men are able to take up land and hold it idle, and, as John Stuart Mill says, grow rich while they sleep. A system that makes this possible is iniquitous . . . I call that getting rich on the labours of others. I call it theft . . . Surely it follows that since public works and population create the unearned increment, the unearned increment itself should pay to the country some return for those public works . . .”

The Rating on Unimproved Value Act (1896)

Finally in 1896, the Rating on Unimproved Value Act was passed. In moving the second reading of the bill, the Premier (Hon. R. J. Seddon) said:

“It is unnecessary for me to make a speech in reference to this Bill. The principle contained therein has been affirmed by the House four times. It has been discussed upon every platform in the country and it has been generally approved . . . It has been before the people. It was before the people before the general election of 1893. This measure has been four times passed by this house . . .”

In the Bill the unimproved value was defined as meaning the gross value of the land less the value of all improvements thereon. Improvements were defined as including “water races, houses and buildings, fencing, planting, draining, clearing, grassing and any other improvements whatsoever on the land, in so far as the benefit thereof is unexhausted at the time of valuation but does not include reclaiming of land from the sea.”

The Bill passed its second reading with a majority of 24. At the committee stages there was a strong move to delete the words “but does not include reclaiming of land from the sea.” The motion that the words be retained was carried by 26 votes to 25. Prior to the third reading, an unusual course was taken, Mr. P. J. O'Regan, perhaps the strongest supporter of unimproved value rating, asked that the Bill be recommitted for the purpose of reconsidering the definition of improvements. This course was agreed to and the rather brief Hansard report of the debate records that Mr. O'Regan strongly objected and “held that reclamations were improvements and should certainly be exempted. The retention of that proviso was a great blemish on the Bill.” Also recorded is that Captain Russell remarked that subsequent to the division at the committee stages, the House learned a great deal, not in regard to the unimproved value but how little it understood what the unimproved value was! But by 30 votes to 25 the proviso relating to reclamation was retained.

By 1896 the Liberal-Labour government had a majority in the Legislative Council and when the Bill was referred to the Council it was passed by 20 votes to 12.

(To be continued)