

---



---

## LAND & LIBERTY

Journal of the United Committee for the Taxation of Land Values, Ltd.  
Sixty-second Year. Established June, 1894.

By Post 10s. per annum.

Editor: A. W. MADSEN.

Assistant Editors: V. H. BLUNDELL and P. R. STUBBINGS.

4 GREAT SMITH STREET, LONDON, S.W.1.

Telegrams:  
Eulav, Pari, London.

Telephone:  
Abbey 6665.

---



---

JANUARY, 1955

---



---

## LAND-VALUE RATING PRINCIPLE AND PRACTICE

(Statement prepared for the Conference on the Rating of Land Values convened by the United Committee for the Taxation of Land Values held at the County Hall of the London County Council, 22nd January, 1955.)

1.—When we speak of the "Rating System," we mean the system of local taxation whereby what are known as "the rates" are levied by the local governing authorities in their own administrative areas and for their own purposes. The rating laws ordain for the councils of the local authorities (1) what shall be rateable by them, (2) what criterion shall be applied for assessing that rateable subject, and (3) who shall be responsible for the payment of the rates.

2.—Our purpose is to recommend the system of rating known as the Rating of Land Values, also described as the Rating of Site Values. To get at once to the core of the matter, this system, were it adopted, answers the above three questions thus: (1) The rateable subject is the site and the site alone belonging to each piece or plot or holding of land. (2) The assessment is based on the market value (as at date of valuation) attaching to the land excluding the value that can be attributed to any buildings thereon, *i.e.*, assuming that the buildings thereon did not exist. (3) The rates are levied on the land value so ascertained and liability for payment rests on those who own the land value. In explanation, the term "buildings" is used here as comprising structures of all kinds and the results of any expenditure of labour or capital placed on or in the respective landholding—these things other than buildings as such being often referred to as "other improvements."

### *How the rates are now levied*

3.—The existing rating system answers the above three questions thus: (1) The rateable property is the composite subject of land and buildings taken together, and rateable properties include parts of buildings such as flats that are in separate occupation. (2) The assessment, whenever it takes place, is based on the rent which the property in its then actual state might be expected to yield supposing it to be let from year to year. (3) The rates are levied on the assessment so established and the liability for the payment of the rates rests on the occupier. If and so long as the property is unoccupied, no rates are payable. The foregoing applies to England and Wales; but in Scotland the liability to pay rates is shared in certain proportions between the occupier and the owner, who are separately

charged, the "owner's" rate being leviable whether the property is occupied or not<sup>1</sup>.

4.—The existing rating system taxes all buildings and improvements that come within its scope, its burden falling on the use to which land is put and with the greater force the better land is developed as the result of buildings erected or improvements made. The keystone of the existing system is its definition of "rateable value." The assessor has to estimate what a property is worth to let *in its existing condition* and if let in that condition for a year only. The implication of those instructions can be readily seen. Where the land carries a good and well-adapted building, the property in that condition commanding a higher rent than another where the building is shabby or obsolete, the assessment in the first case is put high and that in the second case is put low. Yet it may well be that the shabby building, worth less to rent because of its state of repair, stands on a much more valuable site. The potentiality of the land (its value for improved use) is excluded from consideration, since no one under a yearly tenure would make improvements. And thus, in obedience to the rules or in their necessary interpretation, vacant land, however valuable it may be, is either not entered in the rolls or is assessed at a purely nominal figure. When a building is erected where none was before or when a property is improved or enlarged, increasing what it is worth to rent, the valuation authority can be required at once to make a new valuation and immediately the burden of rates is imposed or increased. But where properties are allowed to deteriorate the assessor must write them down, and when lands lie vacant he must pass them by.

### *"Derating" and other discrimination*

5.—The existing system of rating is not consistent in its action. It is selective in its treatment of various classes of properties. Agricultural land and farm buildings other than houses are exempt from assessment and charge of rates<sup>2</sup>, and lands and premises occupied for definable industrial and freight-transport purposes have their rateable values reduced by three-quarters so as to enjoy a corresponding relief from the rates that would otherwise be chargeable. These dispensations were admitted into the rating system by the Acts of 1928 and 1929, generally known as the "de-rating" legislation. The total amount of annual rateable value which, to the loss of the local authorities, has thus been eliminated from the assessment rolls in England and Wales has been estimated by the Society of County Treasurers (on the basis of 1951/52 data) at no less than £72,500,000. A similar calculation for Scotland is lacking. Another discrimination between classes of property is that, in the general revision of assessments being made and to take effect in 1956, the assessments of houses are being fixed by reference to rental values supposedly obtaining in 1939 whereas for shops

<sup>1</sup> "Owner" in this connection means broadly speaking the person who is entitled to receive the rent from the immediate occupier and includes owner-occupiers. The "owner" in this sense is more often than not a vassal paying a perpetual rent (in feu duty or ground annual) to a superior landlord. The latter, like the ground landlord of leasehold land in England and Wales, makes no contribution to the rates.

(There are sundry other differences between English and Scottish law and practice, but they are of little moment.)

<sup>2</sup> So in England and Wales; but in Scotland there are slightly differing provisions fitting in with Scottish law and practice and having equivalent effect.

and commercial premises current rental values are adopted as the standard. But these extravagances or irregularities do not alter the essential features, as already described, of the existing system, under which houses, shops, warehouses, commercial premises and other buildings are taxed and virtually penalised.

#### *Rating land values—exempting buildings*

6.—The Land-Value Rating system, on the contrary, automatically exempts from local taxation the buildings attached to every holding and, even more important, all new constructions, all additions or improvements to existing buildings are similarly freed. The rates are levied solely on the land value, so that the amount of the charge varies in accordance with the amount of the assessed land value. Thus all land comes under contribution in proportion to its value, and it does so irrespective of the use to which it is being put and whether it is used or not. Whatever may be the actual or the zoned use of the land (let it be for residential, commercial, industrial, agricultural or other use) the criterion for rating purposes is one and the same. It is the value of the land, as land apart from buildings, the value that is not due to anything done on the spot by either proprietor or tenant (of the land in question) but arises as we shall see from circumstances for which they, as individuals, are not accountable.

#### *Origin and nature of land value*

7.—In valuing “land apart from buildings” or “land apart from buildings and improvements,” it is to be stressed that the exclusion of the buildings, etc. (in order to arrive at the value of land) applies purely to the buildings, etc., which are within the boundary of the particular piece of land that is being valued, while everything beyond that boundary is regarded as remaining in its present state. To disregard the existence of all the surrounding developments, when the valuation of land piece by piece and lot by lot is being undertaken, would be to disregard what gives the land its value. It is the social advantages derived from its position and all the surrounding circumstances that give it a value, high or low as the case may be, as anyone can confirm who studies the advertisements of the real estate agents. These are extraordinarily illuminating as the following typical examples may show:

*Guildford:* Choice building plots occupying high position on gently sloping well-wooded ground, enjoying pleasant views, from £600 to £1,400.

*Old Windsor:* Loveliest position, practically facing river, five main road plots with all services, £3,500.

*Crawley:* Main road position, close to the station, 3½ acres suitable for about 30 houses, £5,750.

*Harrow:* Corner building site, main Northolt Road, opposite cinema, half an acre, £7,500.

*Beckenham:* Good residential position, 5 minutes from Junction Station, shops and buses, planned for three houses, £1,750.

*Sussex Coastal Town:* Dominating rectangular cleared site, 1,300 sq. yards. Unrivalled position in heart of town, frontages to sea front and premier thoroughfare, £30,000.

There we have practical testimony, convincing as any text-book exposition.

#### *A proper source of public revenue*

8.—Land value is the expression of the economic rent of land. It varies from place to place and from spot to spot, low here and high there, and marked differences are noticeable from street to street. In the centres of cities it can reach fabulous sums. It is dependent upon the advantages which nature and situation give to any particular piece of land; such as fertility, subsoil, natural drainage, aspect north or south, elevation and so on; such as proximity to roads, railways and other means of communication, to markets, shops, facilities for education and other attractions which form the environment created by the community individually and collectively.

9.—Understanding well the factors that give rise to this land value or this economic rent of land, and observing not merely how it *has arisen* but how it *is maintained* from day to day by the continuing life and economic activities of the community, we are led to see that it is a rightful and proper source of public revenue. Therein, above all, is the justification of the Rating of Land Values.

#### *The land valuation*

10.—We have endeavoured to explain the general principles. The first requirement for their practical application is the land valuation. The ease and simplicity of this consists in the fact that only one thing is to be valued, namely the land-value as such, eliminating the need for valuing either the composite subject of land and buildings taken together or the buildings alone; and no question arises about the nature, the state of repair and the suitability to the site of any existing buildings.

11.—The annual land-value would be assessed, being defined as the annual rent which the land comprising the land unit might be expected to realise if demised with vacant possession at the valuation date in the open market by a willing lessor upon a perpetually renewable tenure, and upon the assumption that at that date there were not upon or in that land unit any buildings or other improvements, nor anything growing except grass, heather, gorse, sedge or other natural growth; and that the annual rent had been computed without taking into account the value of any tillages or manures or any improvements for which any sum would be payable to an outgoing tenant of a holding.

12.—The first valuation should be succeeded by re-valuations at intervals of not more than five years. Detailed discussion of the methods followed in making the valuations is beyond the scope of this Paper\*. An essential matter, however, is that the valuation rolls both in their provisional state (*i.e.*, before objections and appeals are dealt with) and permanently thereafter be open to public inspection. It is also desirable that the established value of adjacent lands should be receivable in evidence in respect of any disputed valuation.

#### *Payment of the land-value rates*

13.—In the legislation for the Rating of Land Values, the collection of the land-value rates would be combined with provisions whereby liability for the rate payment

\* In the case of agricultural land the valuation should be made on the assumption that the land is in an average good state of cultivation, so that the valuation will not be increased by additions to its fertility nor diminished by neglect to maintain its fertility.

would be borne by those who enjoy the land value, and so in proportion to their respective shares therein.

14.—The demand note should, in the case of land occupied by the freeholder or by the lessee for a term of say seven years or more, be sent to the occupier (or in the case of unoccupied land to the person entitled to occupy it). In the case of short tenancies, *e.g.*, for terms of up to seven years, the demand note should go to the occupier's immediate landlord. Such tenants may be assumed to be paying a rack rent at least equal to the assessed annual land value. In either case, if the person on whom the demand is made is himself a lessee he would be enabled to deduct, from each pound of rent payable by him to his lessor, the rate-poundage obtaining (provided always that if the rent payable by him to his lessor is greater than the assessed annual land value he may deduct no more than the amount of the rate-charge). An intermediate leaseholder who has so contributed by deduction would have the like right of deduction from his lessor and so up to the freeholder. These and other practical details of the application of the Rating of Land Values were systematically worked out and put into legislative form in the London Rating (Site Values) Bill promoted by the London County Council and introduced in the Parliamentary Session, 1938-39.

15.—This distribution of the liability for payment of the land-value rate would apply under existing as well as under future leases or tenancy agreements and any agreements inconsistent with this provision would in that respect be void. Thus in England and Wales ground landlords and lessees, and in Scotland superiors and feuars would each contribute to the land-value rate in proportion to their respective interests in the land value. The land-value rate would until paid be a charge on the land, payment if necessary being enforced by the means open to mortgagees.

#### *Twin functions of land-value rating*

16.—The Rating of Land Values is the alternative to the existing system. To the extent that the rates are levied on land values, so the rates as they are now levied would be reduced or eliminated. The raising of the revenues and at the same time the removal of the present rates are twin functions of Land-Value Rating. The latter function is as vitally important as the former, for thereby would be brought about the abolition of taxation, as disruptive as it is unjust, which comes into action only as and when land and buildings are brought into use, imposes a burden irrational and frequently intolerable, and obstructs where it does not actually frustrate desirable development. Local government, endowed with its own resources, the community-created value of land, would not need to take toll of any person's individual industry.

#### *Operation in other countries*

17.—The Rating of Land Values is in practical operation in a considerable number of countries, but to explain to what degree—either providing the whole of the local rate-revenues or applied so as to reduce the rates on buildings—would require a treatise in itself. Various fully documented publications on the matter are available at the offices of the United Committee, 4 Great Smith Street, S.W.1. The countries so giving effect to the policy, most having had it in operation for many years, include Denmark; New Zealand; Queensland, New South Wales, Victoria, South Australia, Western Australia; the Union of

South Africa (particularly the Transvaal); Rhodesia, Kenya and Tanganyika; and the Western Provinces of Canada. It is hardly necessary to remark that in all these countries the separate valuation of land is a well-established institution. Altogether, here is a capacious portfolio giving competent reply, from the experience gained, to questions that may be put, whether Land-Value Rating can work, whether it does work and how it works in practice.

#### *British municipalities approve*

18.—Hundreds of municipalities in Great Britain have declared their approval of the Rating of Land Values over a period of very many years—at least eighty of them since the last war. The following is a list (it may not be complete) of the Councils in London and the Home Counties which have adopted resolutions in favour of Land-Value Rating since 1936: Acton, Barking, Battersea, Bermondsey, Bethnal Green, Bexley, Bexleyheath, Camberwell, Dagenham, Dartford, Deptford, Dover, Ealing, East Ham, Edmonton, Erith, Essex C.C., Feltham, Fulham, Gravesend, Greenwich, Hackney, Hammersmith, Hayes and Harlington, Hendon, Holborn, Hornchurch, Islington, Lambeth, Leigh, Leyton, London C.C., Portsmouth, Reading, St. Pancras, Shoreditch, Southall, Southwark, Sunbury, Tottenham, Walthamstow, Waltham Abbey, Wembley, West Ham, Willesden, Wood Green, Woolwich.

19.—“Until we are satisfied that the burden of local taxation rests where it should, it would seem to be our duty to examine—impartially if we can—any proposals which are brought forward for alteration of the present system, and, if we find them acceptable, to press for their adoption.” With these words Mr. Ernest Long, F.I.M.T.A., A.S.A.A., concluded his masterly survey *The Taxation of Land Values* in his Paper read at the 1939 Conference of the Institute of Municipal Treasurers and Accountants. It is hoped that the present Paper will be accepted in the same spirit.

A. W. MADSEN.

#### **SOME RECOMMENDED PUBLICATIONS**

**The Operation of Land-Value Rating in Various Countries.** Memorandum of Evidence submitted by the United Committee for the Taxation of Land Values to the Departmental Committee on Site-Value Rating (the “Simes Committee”). Summary and review of land-value legislation, valuation methods, revenue yields, etc., in Denmark, New Zealand, Australia, South Africa, Rhodesia and Kenya. 16-page pamphlet. 6d.

**Land Valuation in Denmark.** By K. J. Kristensen, Chief of the Danish Land Valuation Department. An authoritative statement outlining Danish methods of valuing urban and agricultural land, woodlands, etc.; allowances made for improvements that merge in the land; frequency of the valuations; appeal procedure; use of land-value maps, etc. 12-page pamphlet. 6d.

**Municipal Justice: The Case for Land (Site) Value Rating.** By E. J. Craigie, ex-M.P. The principles explained and common objections answered. Appendices giving comprehensive facts and figures concerning the operation of land-value rating in five Australian States. 36-page pamphlet. 6d.

**Public Charges Upon Land Values.** By A. R. Hutchinson, B.Sc., Director, Land Values Research Group. A study of the effects of local government rating systems upon the social and economic development of the Australian States. 32-page pamphlet. 6d.

**Land Value Taxation in Great Britain.** By A. W. Madsen, Editor of LAND & LIBERTY. Parliamentary Survey covering the years 1906 to 1954. Traces the scope of legislation, how it has been adopted several times by the House of Commons, and how vested interests have rallied in opposition. Included are descriptions of the People's Budget, 1909, the Snowden Budget, 1931, the London County Council Bill, 1939, and the Town and Country Planning Acts, 1947-1954. *New printing ready soon.* 6d.