

Land-Value Rating Principle and Practice

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1. The case is here presented for so amending the system of local taxation that local revenues shall be obtained by rates levied on the value of land, exempting buildings and other improvements from assessment. In this, attention is devoted to the local taxation system as such; that is to say, the system by which funds are raised locally to defray the expenses of local government and by which the liability of individual persons to contribute to such funds is determined. It is recognised that in addition to those locally raised funds the local authorities receive large subventions which are distributed to them by Parliament out of the proceeds of national taxation. Important as is this relationship between local and national finance, it is, for our present purpose, a subject apart.

2. Comparison is made between the conditions as they are at present and the conditions that would be set up, given that the value of land (apart from the erections thereon) is the established basis of assessment and given that the annual charge of rates is measured by that value and the rates are made payable by each person interested in the land value in proportion to his interest.

3. Thus, by the adoption of the Land-Value Rating system (which is in practical operation in a number of countries) the rating laws as amended would ordain:

- a. The rateable subject is the site and the site alone belonging to each piece or plot or holding of land.

- b. The valuation is the actual market value attaching to the land assuming that any erections thereon do not exist, but surrounding developments remain as they are.
 - c. The rates are levied on the land value so ascertained and responsibility for payment rests on the persons who enjoy the land value, or who share in its enjoyment.
4. By contrast, under the existing rating system:
- a. The rateable property is the composite subject of land and buildings and other improvements taken together, rateable properties including parts of buildings such as flats that are in separate occupation.
 - b. The valuation—to quote the Scottish statutes—is the yearly value of the property at which one year with another it might, *in its actual state*, be reasonably expected to let; with the provision—in Scots law—that if the property is let *bona fide* for a rent fixed at the fair annual value, that rent is taken to be the true yearly value if the land is let for a period short of 21 years.
 - c. The rates are levied on the valuation so established and the liability for payment is borne partly by the occupier and partly by the owner,* they being separately charged. The owner's rate is levied whether the property is occupied or not. If the owner is in occupation, he pays both the owner's and the occupier's rate.

* This is one point of difference between Scottish and English law and practice. In England and Wales the burden of the rates rests wholly on the occupier, so that where a property is empty no rates are leviable. It should be observed that the Scottish word "owner" is of limited application. Used in this connection, it means broadly speaking the person who is entitled to receive the rent from the immediate occupier. He may be the freeholder but in the vast majority of cases he is a "feuar," that is to say he is a vassal paying a perpetual rent (in feu-duty or ground annual) to a superior landlord. The latter, like the ground landlord of leased property in England and Wales, makes no contribution to the rates.

5. The existing rating system throughout Great Britain (Scottish and English law differing only in minor details) 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 weight the better the land is developed as the result of buildings erected or improvements made.

6. The essence of the existing system is its definition of the assessable or rateable value, including the words we have italicised above. The assessor has to estimate what a property is worth to let *in its actual state* and if let in that state on a yearly tenure. The implication of those instructions can be readily seen. Where the land carries a good and well-adapted building, the property in that state 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. 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 assessor has to take note of it and at once the rates are increased. But where properties are allowed to deteriorate so that they are worth less to rent, it is the duty of the assessor to write them down and in consequence the rates are reduced; and when lands however valuable lie vacant, he must pass them by.

The "de-rating" legislation

7. The existing system of rating is not consistent in its action. It is selective in its treatment of a large class of properties. The "gross annual value" which in Scotland is the established basis for the rates is reduced to one-quarter in the case of lands and premises occupied for definable industrial and freight transport purposes; and to

one-eighth in the case of agricultural properties including any farm dwellings or other buildings thereon. In England and Wales the "relief to agriculture" is given by totally exempting the agricultural land and the farm buildings other than houses, the rates being levied on houses only. The "industrial relief" is the same in both countries. These dispensations were admitted into the rating system by the Acts of 1928 and 1929, generally known as the de-rating legislation. The effect is to be seen in the official *Return of Rates in Scotland*. For the year 1954/55 the gross annual value for the whole of the country is written down from a sum of £67,002,735 to a "rateable value" of £54,147,845. An annual value of no less than £12,854,890 thus escapes contribution. In England and Wales, the amount of assessable value similarly eliminated from charge of rates has been estimated by the Society of County Treasurers, on the basis of 1951/52 data, at no less than £72,500,000. These extrayagances or irregularities do not however alter the essential features of the existing system as already described, under which houses, shops, warehouses, commercial premises and other buildings are taxed and virtually penalised.

Rating land values—exempting buildings

8. The Land-Value Rating system, on the contrary, automatically exempts from local taxation the buildings attached to every holding and, even more important, the exemption applies to all new constructions and all additions or improvements to existing buildings. 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

9. In valuing 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 land agents. These are extraordinarily illuminating as the following typical examples may show:

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

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

Main road position, close to the station, $3\frac{1}{2}$ acres suitable for about 30 houses, £5,750.

Corner building site, main road, opposite cinema, half an acre, £7,500.

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

Dominating rectangular cleared site, 1,300 sq. yds. 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

10. 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.

11. 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

12. We have endeavoured briefly 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.

13. 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.

14. The first valuation should be succeeded by revaluations at frequent intervals. Indeed, the practice in Scotland of revising valuations once a year would make it possible to revise, as frequently, the annual land value of every land unit, which would thus be quickly adjusted to any new influence or changed circumstances as may arise. 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

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

16. 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

* 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.

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.

17. 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, superiors and feuars in Scotland, and ground landlords and lessees in England and Wales, 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

18. 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, obtaining its revenues, as it should, from the community-created value of land, would not need to take toll of any person's individual industry.

Operation in other countries

19. 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 for the Taxation of Land Values, 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 ; the Western Provinces of Canada and Pittsburgh and Scranton in Pennsylvania. 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.

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