

Report Part Title: Australia

Report Title: Land Value Taxation:

Report Subtitle: A Case Study Approach

Report Author(s): William J. McCluskey and Riel C.D. Franzsen

Lincoln Institute of Land Policy (2001)

Stable URL: <http://www.jstor.com/stable/resrep18161.8>

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commissions and reports have concluded that improvements should form part of the tax base (Feetham Commission, 1926; Nyagah Commission, 1975; and the Omamo Commission, 1995).

Various commentators are in favour of a rating system based on capital improved values, rather than site value. It is argued that in well-developed areas (e.g. Nairobi's CBD) a site rating system cannot generate enough revenue to service the infrastructure and services provided (Olima, 1999). Syagga and Olima (1996) argue for site rating for undeveloped land and capital improved rating for developed sites - i.e. rating based on the 'market value of the rateable property'. The Valuation for Rating Act 1956 already makes provision for rating improvements. However, there is strong opposition from wealthy (influential) landowners and politicians (Gachuru and Olima, 1998).

Local authorities in Kenya are currently faced with the problem of inadequate revenue sources to finance the provision of local services. Increasing urban populations has resulted in increasing demands for urban services and thus derived demand on local authority expenditure. There is a mismatch between local authority tax revenue and local expenditure due to the rather inflexible nature of local tax instruments. Among the five major sources of local authority revenues, rates or property tax commands the major source even given the level of arrears and the rates of annual delinquency. There is clearly a need to mobilise efforts to maximise the potential of the property tax in terms of revenue generation.

Australia

Australia and New Zealand embraced land value taxation largely as a result of the ideas of Henry George (Hornby, 1999). The land value system has been developed in these two countries to a greater extent than probably anywhere else in the world. However, in recent times the situation has changed. Whereas state-levied land taxes are still exclusively based on unimproved land values, local government property tax bases, nowadays vary substantially. Local government is primarily a function of state and territory governments, therefore the systems differ. For example, local government coverage in New South Wales, Queensland, Victoria, Tasmania, and Western Australia is 100%, whereas it is only 15% in South Australia and a mere 5% in the Northern Territory. This also impacts on the various rating systems operative in the various states and territories.

The Commonwealth and the States are discussing increased taxation of each other's activities. A full tax regime (i.e. reciprocal taxation) will have a severe impact on the local government sphere. According to the Australian Local Government Association (ALGA), local government will be a large net loser if reciprocal taxation is introduced and no provision is made for adequate compensation for the increased liability for Commonwealth and State taxes (ALGA, 1998).

The Australian Commonwealth recently (1 July 2000) introduced a broad-based Goods and Services Tax (GST) which, in essence, is a form of value-added tax. The introduction of GST implies that local governments are liable for GST on goods and services provided to it, whereas they were previously exempt from sales tax. Local governments have to charge GST on the provision of certain services.

The fear has been expressed that if the States fail to secure adequate revenue sources (including a deal on revenue sharing with the Commonwealth), they may want to extend their property-related taxes. This will further diminish the capacity of the rates base of local government in all Australian States and territories (ALGA, 1998). ALGA suggests that the constraints on rates revenue (by arbitrary exemptions, limits and definitions) must also be reviewed in the context of wider tax reform. Retention of a strong rates base for local government is essential.

Property-related taxation in Australia has a long and proud history. Although its popularity has decreased in recent years (in favour of income taxation), it is still an important source of revenue for State governments and especially for local government (Hornby, 1999). Local government rates account for on average approximately 68% of total taxes on immovable property, while state land taxes account for approximately 27% (Hornby, 1999). In 1996/97 the total revenue from taxes on immovable property for the whole of Australia, amounted to A\$7,367 million (Australian Bureau of Statistics).

Australia is famous for its excellent and accurate titling system, the so-called Torrens system (administered by the Registrar of Deeds and the Registrar of Titles), that ensures certainty of rights in property. This is a valuable asset in the context of maintaining a legitimate property tax system.

Table 11 provides a summary of rating provisions in the 6 states (New South Wales (NSW), Queensland (Qld), South Australia (SA), Tasmania (Tas), Western Australia (WA) and Victoria (Vic)) as well as the Northern Territory (NT).

Table 11: Preferred property tax bases in Australia

	NSW	Qld	SA	Tas	WA	Vic	NT
Preferred tax base	SV	UV	CIV	Annual	GRV (urban) UV (rural)	CIV	SV
Optional tax bases	—	—	SV or NAV	SV or CIV	—	SV or NAV	CIV or NAV

Recent years have seen a decline in the level of Commonwealth grant support and a decreased reliance on debt finance. Local government has become more reliant on its own taxes, user charges and fines, especially property tax (i.e. rates).

In terms of Commonwealth legislation, aboriginal land is not presently being rated anywhere in Australia. In some aboriginal communities in the Northern Territory community councils are beginning to tax themselves in various ways (e.g. house taxes) (Revenue Raising Options, 1999).

For purposes of the present study, the rating systems (with emphasis on the land value rating systems) presently utilised in the Northern Territory, Western Australia, Queensland and Victoria, will be discussed.

Northern Territory

Origin and Historic Development

The Northern Territory, which only attained self-government in 1978 (and is appropriately referred to as 'the last frontier'), has a surface area of approximately 1.5 million km², but a population of only 195,000, of which approximately 70,000 live in its capital city, Darwin.

Rates as a percentage of total local government operating income is about 50%. Especially in the remote rural villages and aboriginal communities, where the property tax base is limited or non-existent (due to statutory prohibition), intergovernmental grants are the most important sources of revenue for municipal councils.

Local Government Structure

There are 68 local governments, covering only 5% of the surface area of the territory. These local governments comprise the following:

- 6 municipalities;
- 1 special purpose town;
- 32 community governments;
- 29 incorporated associations.

Community governments and incorporated associations are typically small aboriginal communities, but recognised as local governments by the Commonwealth and Northern Territory governments so as to be able to utilise grant funding for municipal type services. In terms of Commonwealth law, local governments cannot levy rates on aboriginal land. Therefore the smaller, predominantly aboriginal communities (community governments or incorporated associations) have, in some cases, introduced 'service charges' (Revenue Raising Options, 1999).

The larger councils (i.e. municipalities provide the usual range of municipal services, with the noticeable exception of planning and building regulation (for which the Northern Territory government is responsible). The Litchfield Shire Council is the only large rural council in the Northern Territory and provides services only in the areas of

roads, rubbish and recreation (referred to as the '3Rs'). This council levies a flat A\$325 per property, irrespective of size, value, zoning or use.

Present Status of Land Value Taxation

The Local Government Act of 1993 (s.65) provides for a choice between unimproved values, improved capital values, or annual values as tax base, or a combination of any two of these. In practice, however, unimproved values (UV) is the only tax base utilised in the Northern Territory, for all rateable properties in all taxing jurisdictions.

In contrast to other Australian states, a land tax (on unimproved values) is not levied by the Northern Territory government.

Nature of the Property Tax

Table 12: Synopsis of the local government property tax legislation

Taxable Object	Approximately 45,000 parcels
Tax Base	Unimproved value (in practice); Capital improved value; or Annual value.
Taxpayer	Owner
Method(s) of Assessment	Willing buyer, willing seller Extensive use of CAMA technology
Assessment	The Valuer-General's Office (in practice), although open to tender.
Valuation Cycles	Every 3 years
Objections and Appeal Procedures	VGO considers queries and objections; the Land Valuation Tribunal hears appeals
Tax Rates	Uniform or differential rates, set locally; Minimum rates are generally applied; 'Flat rates' in two jurisdictions
Exemptions	Crown land and aboriginal land

Valuation Issues

Presently, the only basis for valuation for rating purposes is unimproved values. The private sector can, in theory, compete with the Office of the Valuer-General for the contracts in terms of which municipal valuation rolls are prepared. In practice, however, all of the valuation rolls are prepared by the Valuer-General's Office on a three-year cycle (with interim valuations taking place whenever required).

Unlike the independent status of Valuer- General's in the Australian states, the Valuer-General for the Northern Territory and his staff are employees of the Commonwealth's Australian Valuation Office. There are only nine valuers for the Northern Territory, eight based in Darwin and one in Alice Springs (on a rotation basis). The office of the Valuer-General is a business venture, with the contract to the Northern Territory government funding the majority of its work.

Non-rateable properties are also assessed. The cost per parcel of the valuation rolls for Darwin and Alice Springs amount to approximately A\$3-00.

Overall Performance (Coverage, Assessment, Tax and Collection Ratios)

Coverage ratio: All land is assessed, although not all land is rateable. Only approximately 5% of the total land area of the territory presently fall within the boundaries of a local government.

Assessment ratio: UVs are assessed on a three-year cycle throughout the territory. Mass appraisal techniques and manual assessments are being used. The relatively small number of queries, objections and appeals received by the Valuer-General's Office suggest that the quality of assessment is generally very high.

Tax ratio: Councils generally use differential rating based on zoning and also generally apply minimum rates (which may also vary between property categories). Two councils introduced and maintain a system of fixed rates per property.

Collection ratio: High, with no serious problems being experienced. A recent auction of eight properties in the small town of Tennant Creek has had a positive effect on payment levels for that municipality.

Revenue and Non-Revenue Policy Issues

The Northern Territory maintains a strict separation between the provider (Valuer-General's Office) and the user (the rating authorities) of valuations, thereby ensuring the independence of valuations, the basis for a sound and legitimate valuation roll.

There are presently no indications to move away from using unimproved values as the exclusive base for local government rating. It is however interesting to note that two councils, Palmerston (an urban council adjacent to Darwin) and the Shire of Litchfield (predominantly rural - e.g. small-holdings) have introduced so-called 'flat rates' (not to be confused with 'flat rating' as encountered in South Africa). A 'flat rate' is a fixed annual amount per rateable property - irrespective of size, value, use or zoning (see uniform annual charges in New Zealand).

The Future of Land Value Taxation in the Northern Territory

With no reforms to the rating system presently being contemplated and with UVs being the only option for a rating system based on assessed values, the future of land value taxation in the Northern Territory seems secure. In a sparsely populated, undeveloped territory, the utilisation of unimproved values makes sense.

Western Australia

Origin and Historic Development

Western Australia is vast. It has a surface area of approximately 2.5 million km², but a population of less than 1.9 million of which 1.3 million live in the Perth Metropolitan Region. The Roads Act 1902 gave Road Boards the power to use a site value or an annual value system to raise revenue, with the majority of boards opting for a site rating system. In 1945 urban municipalities were granted the same powers (Hornby, 1999).

Local Government Structure

Local governments (municipalities) are categorised as cities, towns and shires – covering the total surface area of the State. Shires will typically consist of one or more small towns and their surrounding rural areas. There are 144 local governments of which 30 are urban local governments located in the Perth Metropolitan Region.

Local governments range in size from the minute town of Peppermint Grove (a mere 1.5 km²) within the Perth Metropolitan Region, to possibly the largest municipality in the world today, namely the Shire of East Pilbara (378,553 km²). The City of Perth itself is a small council, consisting primarily of the central business district. Its surface area is 8.8 km² and its population approximately 5,200 (in 1997).

All local governments charge and collect rates. Rates revenue as a percentage of total local government revenue averages 42% for Western Australia (the median, however, is 34%). In the case of Stirling council (within the Perth Metropolitan Region), 75% of its revenue is derived from rates, whereas in the case of the Shire of Upper Gascone, only 4.5% of its total revenue is from rates (the rest primarily comes from Commonwealth grants). In 1980 the McCusker Committee of Inquiry was established to examine problems related to rating and taxation. Amongst other things, this committee recommended that only one valuation base should be used for rating purposes. The base should be capital value for improved properties and site value for unimproved properties. Prior to the McCusker Committee the Keall Report recommended that assessed value should be a certain percentage of capital value. These recommendations have not (as yet) been implemented (Hornby, 1999).

The tax base for all land situated within a 'townsite' (i.e. all land within the 30 councils in the Perth Metropolitan Region, all land within towns, as well as urban properties within the jurisdiction of shire councils) is gross rental values (GRVs), whereas, unimproved values (UVs) are used by shire councils for rural properties. In other words, two tax bases are utilised simultaneously by shire councils.

Present Status of Land Value Taxation

Unimproved values (UV) for all properties in Western Australia are assessed annually by the Valuer-General's Office for purposes of the State's land tax and those local governments (i.e. the shire councils) using UV rating. A metropolitan region improvement tax (at a tax rate of 0.15 cent in the A\$) is collected by the State Revenue Department on all land within the Perth Metropolitan Region which is also liable for the State's land tax and on the same tax base - i.e. site values. In respect of townsites, UVs equate to SVs. Differential rates and minimum rates are imposed by most councils.

Nature of the Property Tax

Table 13: Synopsis of the local government property tax legislation

Taxable Object	In excess of 735,000 parcels
Tax Base	UV (shire councils for rural land); or GRV (all townsites)
Taxpayer	Owner
Method(s) of Assessment	GRV: Total rental value a property can achieve over a period of 12 months UV: Willing buyer, willing seller Extensive use of CAMA
Assessment	Registered valuers in the private sector, or the VGO (in practice)
Valuation Cycles	GRV: Triennial cycle (metro); 4-6 years in rest of the State; UV: annual assessments
Objections and Appeal procedures	VGO considers queries and objections; the Land Valuation Tribunal hears appeals
Tax Rates	Uniform or differential rates, set locally; however there is a clear move towards the more extensive use of differential rates Minimum rates are extensively used
Exemptions	Crown land

Valuation Issues

All land parcels in Western Australia has been surveyed and assessed. There are more than 734,600 property parcels in total. The Valuer-General's Office, State Revenue Department and Department of Land Administration (the Titles Office) are all computer-linked and records are frequently updated electronically. All relevant and applicable information pertaining to land (e.g. changes regarding property values, subdivisions and/or transfers) is transferred by computer linkages between these offices. In Western Australia the separation between the provider (Valuer-General's Office) and the user (taxing and rating authorities) of valuations is important. As in the Northern Territory this ensures the independence of valuations, the basis for a sound and legitimate valuation roll.

No person shall be engaged as a valuer for a rating or taxing authority unless he or she is licensed under the Land Valuers Licensing Act 1978, or qualified for membership of the Australian Institute of Valuers (incorporated) as a Fellow or Associate of that Institute (s. 25(2) of the Valuation of Lands Act 1978).

Local governments are entitled to use their own valuers to establish a valuation roll. Should a local government choose this option, the office of the Valuer-General only does

quality control. In practice, however, all local governments have opted to use the values prepared by the Valuer-General.

GRVs are assessed on a triennial cycle in the Perth Metropolitan Region and on a four to six-yearly cycle for towns and shire councils. The introduction of annual revaluations of land in 1993 to provide UVs, necessitated the use of modern mass appraisal techniques. However, these techniques are used for all of the different valuations for which the office of the Valuer-General is responsible.

As pure unimproved value became unworkable for 'townsite' land, due to the nature of certain improvements (defined as 'merged improvements'), 'unimproved value' is actually defined (in the Valuation of Land Act 1978) as 'site value' in respect of urban properties (i.e. land situated within a townsite). The 'site value' of land is defined as 'the capital amount that an estate of fee simple in the land might reasonable be expected to realise upon sale assuming that any improvements to the land, other than merged improvements, had not been made...' In rural areas 'unimproved value' implies that land is still assumed to be in its virgin state.

Overall Performance (Coverage, Assessment, Tax and Collection Ratios)

Coverage ratio: All land is assessed, although not all land is rateable (e.g. aboriginal land). The Western Australian property information system is excellent.

Assessment ratio: Revaluation cycles vary from annual for UVs to between three and six years for GRVs. Mass appraisal techniques are used for both UVs and GRVs. The few queries, objections and appeals received by the Valuer-General's Office suggest that the quality of assessment is generally very high.

Tax ratio: Councils are increasingly opting for differential rating. Perth City Council utilises seven land use categories and introduced differential rating in 1997/98. The Shire of Wyndham-East Kimberley has recently (in 1999/00) introduced differential rating in respect of rural properties.

Collection ratio: High, with no serious problems being experienced.

Revenue and Non-Revenue Policy Issues

The use of differential rates is currently on the increase. Minimum rates apply to all categories of property (town and rural).

The future of Land Value Taxation in Western Australia

In recent years there has been a definite move away from using site values as a base for local government rating in respect of land situated within a townsite. However, unimproved values are still utilised for all properties throughout the state for purposes of Western Australia's land tax and for the rating of rural land within shire councils.

Queensland

Origin and Historic Development

Queensland is now the only state in Australia which uses 'unimproved' value for the rating of all lands rural and urban (Trickett, 1982). The system is of some antiquity in the history of local government finance. After an initial attempt to use annual values local authorities have been levying rates on unimproved values since 1887. Initially, unimproved value was used only by the shires, but the success of this change of rating base led to the adoption in 1890 of the unimproved value system for cities and towns as well. The Queensland Valuation of Land Act 1944 was modeled on the earlier New South Wales and New Zealand valuation legislation and also drew heavily on the Federal Land Tax Act. It is quite easy to understand why unimproved value was adopted by most states in the early stages of their development as it has a particular philosophical attraction to those responsible for the development of a largely undeveloped state.

Local Government Structure

Local government within Queensland is responsible for the carrying out of a wide variety of functions beneficial to their local community. Historically, local government had a narrow range of defined functions. The expression 'Roads, Rates and Rubbish' has been used to describe these functions. However, over the years the range of functions has been expanding and, under the Local Government Act 1993, local governments are given a broad general competence power to enable them to provide most services a local community may need or desire. Therefore, it is necessary for a local government to be able to raise its 'own' revenue to fund the major part of its expenditures on services and facilities. The following represent the main services which local government have primary responsibility for; preventive health, recreation, community development, cultural development, town development, road network, stormwater drainage, water supply, sewerage and solid waste management.

Present Status of Land Value Taxation

Two recent reports the Chalk Report (1989) and the Smith Report (1990) investigated the basis of valuation and concluded that the existing system of unimproved value be replaced with that of site value. There is merit in the adoption of site value particularly for urban lands from the viewpoint of better accuracy and ease of valuation. The question of whether to consider capital improved rating is currently on the agenda however, realistically speaking such a dramatic change would require substantial analysis of impact and effective incidence. The logical short-term improvement to the valuation basis would be the adoption of site value.

Nature of the Property Tax

Table 14: Synopsis of the local government property tax legislation

Taxable Object	1.24 million parcels
Tax Base	Unimproved value
Taxpayer	Owner
Method(s) of Assessment	Comparable sales; residual; limited application of indexation and multiple regression techniques
Assessment	Centralised through the government office of the Valuer-General
Valuation Cycles	Legislation permits the use of annual revaluations (Brisbane, Gold Coast, Cairns) and 3-yearly for the rest of the state
Objections and Appeal Procedures	Landowners have 42 days in which to object to their valuation, 28 days in the case of an annual revaluation; aggrieved parties can further appeal to the Land Court and finally to the High Court of Australia
Tax Rates	Each local authority annually sets its own tax rates; differential rating is widespread throughout Queensland, as is the use of minimum rates
Exemptions	Crown land and land used for religious and charitable purposes
Rebates	Residential owner occupiers remission

Table 14 (continued)

Collection	By one lump sum or by instalments
Enforcement Procedures	Daily interest charges if account is unpaid after the expiry of 30 days; unpaid tax represents a charge on the land, new owner may be liable for outstanding tax

Valuation Issues

Unimproved value of improved land means the capital sum which the fee simple of the land might be expected to realise if offered for sale on such reasonable terms and conditions as a bona fide seller would require, assuming that, at the time as at which the value is required to be ascertained for the purposes of this act, the improvements did not exist. This definition not only excludes the value of visible improvements but also the added value of invisible improvements such as reclamation by drainage or filling, grading, levelling or clearing.

The unimproved value shall not be less than the sum that would be obtained by deducting the value of improvements from the improved value.

Overall Performance (Coverage, Assessment, Tax and Collection Ratios)

Coverage ratio: All land is assessed, although not all land is rateable.

Assessment ratio: The principle of state-wide annual valuations is in force however apart from selected urban areas demonstrating volatile growth the majority of local authorities are revalued on a three-year cycle. Mass appraisal techniques are not widely used at present. A greater use is made of annual indexation and the averaging of assessed values. The few queries, objections and appeals received by the Valuer-General's Office suggest that the quality of assessment is generally very high.

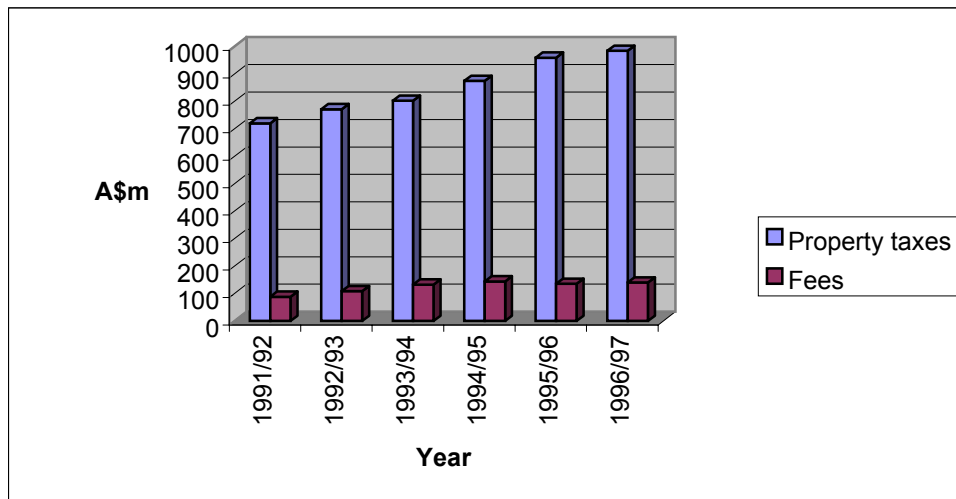
Tax ratio: Councils are increasingly opting for differential rating.

Collection ratio: High, with no serious problems being experienced.

Revenue and Non-Revenue Policy Issues

Local government can decide to implement a system of differential rating to reflect existing and future land uses, services and facilities available to land, location and demographic patterns. In addition, the following can also be levied, separate rates and charges, special rates and charges and utility charges. Figure 1 highlights the importance of rates as a revenue source local government in comparison to the other main sources of revenue i.e. fees/user charges.

Figure 1: Local government revenue: property tax and fees 1997/98



Source: Australian Bureau of Statistics, Taxation Revenue

As of 1997 Queensland had 1.24 million properties assessed for municipal rates with an aggregate unimproved value of A\$95.95 billion.

The Future of Land Value Taxation in Queensland

Since the turn of the 19th century local government rates in Queensland have been levied on the unimproved capital value of properties. Meaning the value of the land literally

without any improvements of any kind (but with all existing amenities). The existing definition of unimproved value requires the valuer to make two basic assumptions, the first being that the estate is a fee simple one and the other being that the land at the date of valuation is in its natural state i.e. without either visible or invisible improvements, in other words both unimproved and undeveloped. The making of the second of these assumptions means that the determination of the unimproved value of improved land under the existing definition requires the valuer in most cases to attempt the impossible task of ascertaining the original state and condition of the land, at a point in time when there is no longer any evidence as to that state and condition. This requirement introduces unnecessary uncertainty and complexity in the valuation process, and provokes differences, disputes and litigation between the valuing authority and the owner.

For valuers the difficulties and anomalies associated with this definition of land, however are increasing with the passage of time and urban development. For example, improvements such as leveling, clearing and filling carried out many years previously are becoming virtually impossible to identify. Other states have adopted the concept of 'site value' (see Western Australia). This means the value of land including improvements which have merged with it over time because they have become permanent; require no maintenance; and for all practical purposes have merged with the land and become invisible. For the purposes of assessing the ratable value of land, such improvements should be deemed to have merged with the land after a period of ten years or upon its prior sale.

The adoption of the concept of 'site value' in place of unimproved value would have the advantage of eliminating a misleading concept from the rating system. It is clear that the term 'unimproved value' is not generally understood by the taxpaying community and that the hypotheses upon which such a value has to be ascertained are confusing. Therefore, the phrase 'site value' should ideally be adopted in place of unimproved value.

Victoria

Origin and Historic Development

Prior to 1919 the law required that the property tax be based on net annual value (NAV). The 1915 Rating on Unimproved Value Act (amended) subsequently accorded local authorities one of three choices:

- To remain on NAV;
- Change to site value; or
- Change to a combination of the two.

Then in 1958 the Local Government Act reinforced the use of the two bases NAV and site value; capital improved rating (CIV) could not be used by authorities for rating, but

was calculated to provide the starting point for assessing NAV (i.e. NAV can be taken as 5% of the CIV). A fundamental change occurred in 1989 when the Local Government Act introduced capital improved rating and access to differential rating for councils using CIV. Therefore, local authorities have at present the choice of one of three rating options, site value, net annual value and capital improved value.

Local Government Structure

The origins of local government in Victoria can be traced back as far as 1840, just five years after permanent European settlement. In 1842 legislation was passed to incorporate the Town of Melbourne. During the latter part of the 19th century, the number of towns, boroughs and shires in the state increased dramatically and by the turn of the century, there were 208 individual local government units in Victoria. The most recent municipal reform took place in Victoria in 1992 when there were 210 local authorities; by the end of 1995 this number was reduced to 78.

Local government is responsible for the provision of a wide variety of services including planning, building control, health and community services, roads, library services and fire protection. To fund these services revenue is obtained from a number of sources; grants and subsidies allocated by the Victoria Grants Commission, rates, charges and fees.

Present Status of Land Value Taxation

Land value taxation as a system is clearly under pressure in Victoria. In 1996, 61 of Victoria's councils had adopted capital improved rating with seventeen using site value. Currently, only three local authorities apply site value and one would expect them to follow the general trend in adopting capital improved values. However, the State Revenue Office will still require land value assessments for the State Land Tax, which currently raises around \$400 million per annum

Nature of the Property Tax

Table 15: Synopsis of the local government property tax legislation

Taxable Object	2.34 million assessments
Tax Base	Authorities have the choice between site value, capital improved value and net annual value (NAV equals 5% of CIV). All property is valued according to each valuation basis although only one is used for rating
Taxpayer	Owner is liable for the property tax
Method(s) of Assessment	Comparable sales; profits and contractors methods; limited use of indexation particularly in Melbourne; some application of mass appraisal methodologies.
Valuation Cycles	Melbourne is revalued annually; all other metropolitan authorities and non-metropolitan are on 2-yearly cycles.

Objections and Appeal Procedures	Any person aggrieved by an assessment may object but only on specific grounds listed in the legislation; objections must be made within two months of the assessment; a further appeal with an independent Tribunal.
Tax Rates	Each council has the power to set its own rates; greater powers to apply differential rates if they adopt capital improved rating.
Exemptions	Crown land; land used for religious, charitable and educational purposes.
Rebates	Farmland

Table 15 (continued)

Collection	Payable in one lump sum or by instalments.
Enforcement Procedures	Interest liable on unpaid tax.
Assessment	Undertaken by each authority by either own staff or under contract.

Valuation Issues

A municipality may use the site value, net annual value or capital improved value system of valuation. In order to change the current system a council must publish a public notice of its decision to change the system with a poll of voters to be taken.

It is clear from the analysis that councils in recent years have been moving to capital improved value systems. As capital improved value includes all improvements it is often supported on the grounds that it more closely reflects capacity to pay. This view relies on the premise that those with the greater capacity to pay are more likely to invest in their properties and make improvements. Part of the reason for this shift can be explained by the legislation allowing councils to use differential rates if they move to a CIV basis.

Site value of land means the sum which the land, if it were held for an estate in fee simple unencumbered by any lease, mortgage or other charge, might in ordinary circumstances be expected to realize at the time of valuation if offered for sale on such reasonable terms and conditions as a genuine seller might be expected to require, and assuming that the improvements (if any) had not been made.

Improvements for the purposes of ascertaining the site value of land, means all work actually done or material used on and for the benefit of the land, but only where as a result the value of the land has been increased. Not considered as improvements are the removal or destruction of vegetation, or the removal of timber, earth, the draining or filling of land and the changing or improving of any waterway (Valuation of Land Act 1960).

Overall Performance (Coverage, Assessment, Tax and Collection Ratios)

Coverage ratio: All taxable property must appear in the valuation rolls.

Assessment ratio: At present all authorities have to adhere to the recently adopted a two-year revaluation cycle; Melbourne has since 1994 been revalued annually. The assessed values to market values are therefore maintained and significant value shifts are minimised.

Tax ratio: Each local authority annually strikes individual tax rates; those on CIV have the additional power to set differential rates.

Collection ratio: Levels of collection are approaching 100%.

Revenue and Non-Revenue Policy Issues

A council may declare the following rates and charges; general rates; municipal charges; service rates; service charges; special rates; and special charges.

Rates contribute in the region of 76% of a municipality's annual budget, however this percentage varies quite considerably across the different councils. Statewide the total revenue generated is in the region of A\$1.3 billion (1997).

For the City of Melbourne Table 16 illustrates the main sources of revenue available. (It should however be noted that Melbourne uses net annual value as the basis of the property tax).

Table 16: Revenue sources for the City of Melbourne: 1998

Source of Revenue	Percentage
Property tax (i.e. rates)	49
Fees and charges	32
Interest	6
Other	6
Dividends	2
Grants	2
Sale of property	3

The Future of Land Value Taxation in Victoria

Within Victoria local authorities have the option to use one of three rating bases i.e. site value, net annual value and capital improved value. Whilst authorities must assess properties on all three forms, only one may be used for municipal rating purposes. The valuation base used for rating purposes does not affect the total level of revenue a council raises through rates. However, the choice of valuation base can affect categories of properties differently and so influence the distribution of rates burden across the local authority.

Site value is a major burden on those land uses, which rely heavily on the land component. As it does not include improvements it therefore places a greater relative burden on the undeveloped properties. There has long been an argument that such taxes encourage development while annual value and capital improved value systems discourage development. There is, however, little empirical evidence that shows such an effect, and the evidence that does exist suggests that local taxes are less important than other factors in business decisions on location. The use of site value can place considerable pressure on councils to give concessions to categories of landowners on whom the rating burden is seen to fall disproportionately for example, large farming enterprises. In recognition of this, few rural local authorities are on site value. Those that are, have frequently tried to address the problem, either by striking very favorable farm rates or by the extensive use of minimum rates. Such cases are clearly moving well away from the *ad valorem* basis of property tax and the very fact that local authorities feel it is necessary to do this suggests difficulties with the basic principle of site value.

In built up urban areas, with very little or no unimproved land/sales a further strong argument against site value exists. In such cases unimproved values tend to be artificial and may have to be extrapolated from neighboring local authority areas.

Figure 2: Property tax system use by local authorities in Victoria: 1998

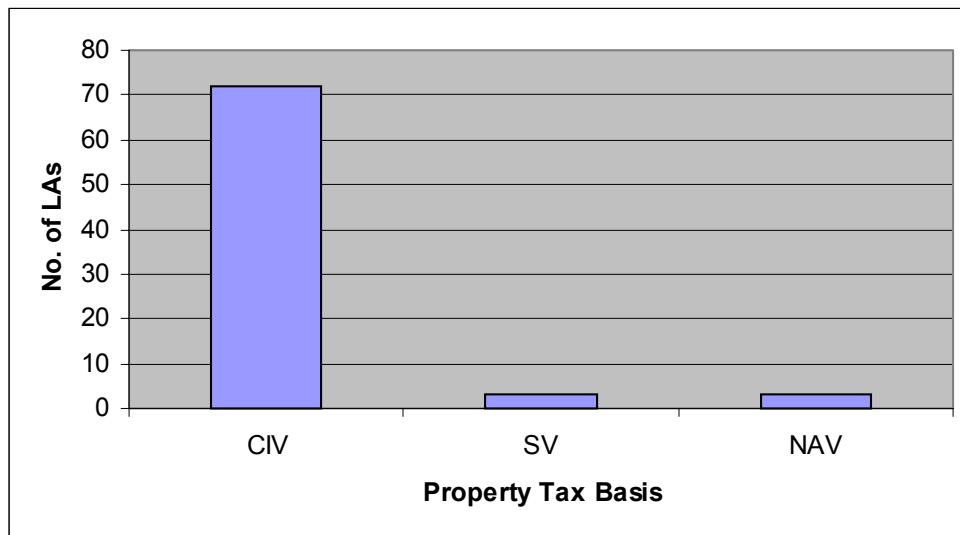


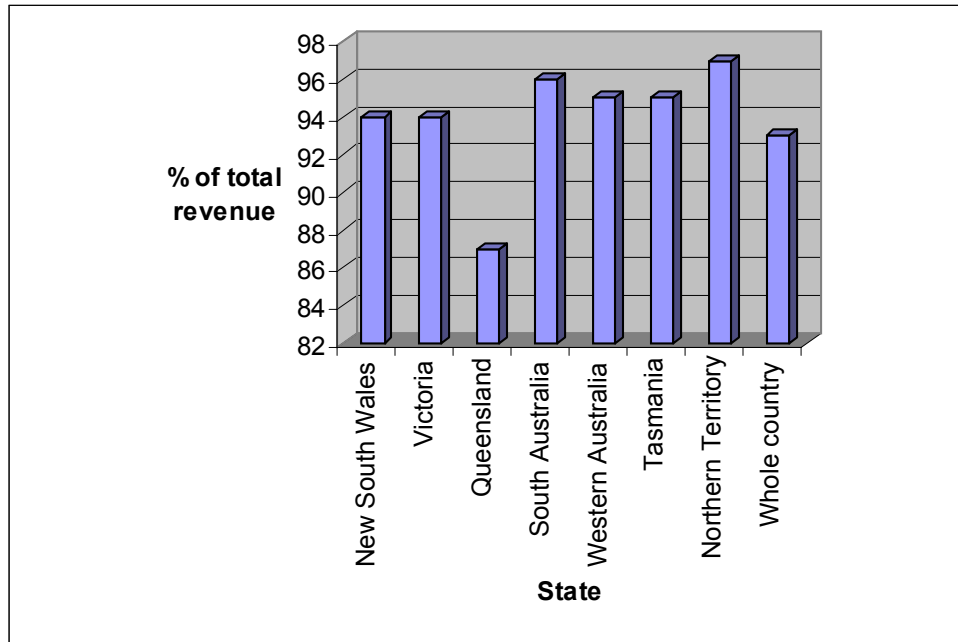
Figure 2 illustrates the importance of capital improved systems as the basis of local authority rating in Victoria. There are advantages from all authorities using the same valuation system. Similar properties on either side of a local authority boundary could pay significantly different rates simply because of the valuation base used. It would appear that Victoria is moving albeit in a piecemeal approach to having a uniform value base for the entire state.

Australia: General trends

Property Tax Revenue

It is abundantly clear from Figure 3 that local government in Australia is highly dependent upon the revenue raised from *ad valorem* property taxes.

Figure 3: Property tax revenue of local government: 1998



Source: Australian Bureau of Statistics

Differential Rating

The role and application of differential rating has increased quite dramatically at the local government level. There are a number of reasons for this:

- Differentials allow local authorities to encourage, through discounted rates, activities such as economic development and specific land uses;
- Differentials can deal with anomalies that may arise in a purely *ad valorem* system;
- Differentials provide greater flexibility to address capacity to pay and benefit principles.

Frequency of Revaluations

An important development throughout the states investigated is the emphasis being placed on more frequent revaluation cycles. Recently, the state of Victoria moved to a two-year cycle. There is however, a clear trend towards annual revaluations either at

state level or for the major cities, for example, Western Australia, Melbourne, Brisbane and Cairns.

New Zealand

Origin and Historic Development

In 1844 the new colony's government gave local authorities the power to tax land for the purposes of raising revenue. The principal system of rating adopted by all local authorities was based on annual rental values, more or less identical to the English rating system. In a young and developing country land tended to be bought outright rather than rented. Given the undeveloped nature of the country the Unimproved Value Act 1896 was passed giving local authorities the choice of which valuation basis to adopt. The majority of local authorities by ratepayer poll adopted unimproved value systems. Over the last fifty years land value based rating has been the dominant system. However, since 1985 there has been a definite swing towards the use of capital improved systems.

Local Government Structure

Since 1989 New Zealand local authorities have experienced major restructuring. As at December 1987 there were 828 agencies of regional and local government, there are currently twelve regional councils, 74 territorial authorities and six special authorities. Both regional councils and territorial authorities have the power to levy rates. The main functions of the regional councils include responsibilities under the Resource Management Act, control of pests and noxious plants, marine pollution control, regional civil defense and to oversee transport planning. Territorial authorities generally have responsibility for noise and litter control, parks and reserves, roads, sewerage, water supply and building consents. Figure 4 shows the number of local authorities over the period 1876-1997.