

Site - Value Rating Stands The Test

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(Reprinted by courtesy of *Rating and Valuation*, November)

ARISING out of the dissatisfaction long expressed by local government authorities in New South Wales at the inadequacy of their normal source of revenue (rating on the unimproved value of land) to meet the increasing demands made upon them for services to the community, a special committee was appointed by the Executive of the N.S.W. Local Government Association to study the situation and make recommendations to the Association's annual conference (recently concluded) with a view to urging upon the Minister for Local Government some alternative or additional source of revenue.

It should be borne in mind that, while there has always been a small minority of aldermen and councillors agitating for a change in the basis of the rating system, for one reason or another, there has never been any real doubt, since the introduction of rating upon the unimproved value of land in New South Wales, in 1908, that it was the best system, or that it would continue to be so.

Unfortunately, through the introduction of the Landlord and Tenant (Amendment) Acts 1948-63, the increasing burden of road construction and maintenance thrown on councils, the growth of town-planning regulations, the spread of high-density housing and commercial development, and the system of exemption from rates for Government and other forms of property, it became increasingly hard for the advocates of site-value rating to maintain their position, soundly based as it has always been on moral and economic principle.

Instead of an extension of the existing principle of site-value rating to the financing of main and trunk roads, the vocal minority demanded that this burden should be shifted to the motorist in one or other of the avenues of State or Federal taxation. The Landlord and Tenant (Amendment) Acts 1948-63, one of the most complicated and harmful pieces of legislation ever introduced in the State Parliament, perpetuates a system by which owners of rented properties are compelled to subsidise tenants often in receipt of incomes higher than their own. This reflected on the alleged ability of the property owner to pay increased rates.

Town planning, with its tendency to freeze areas of land or to zone them for different classes of use, created problems necessitating further legislation for the relief of ratepayers, to the detriment, again, of rate revenue. As for exemptions, these on State and Federal Government pro-

perties and on charitable and religious properties are currently costing Councils £4,500,000 a year.

With the spread of high density housing, and especially with the introduction of the "Strata Title," the hard-pressed councils propounded an illogical, but none the less successfully argued, case for the adoption of a form of differential rating. On the strength of this small but significant success, the agitation grew for relief for the ratepayer by the further shifting of the weight of local government expenditure on to the taxpayer, resulting in the setting up of the Committee above referred to.

The Committee adopted as its objective "The devising of a system of rating whereby individual contributions would be more consistent with the nature and extent of the services given." The Committee reported its findings on September 13, 1963 and, while its report was full of recommendations indicating the confusion in the minds of its members, it was a complete vindication of the system of rating on the unimproved value of land, whatever excrescences might be added to it.

This was clearly indicated in the Committee's muddled statement resulting from its examination of the question of the basis of rating: "The Committee considers it would be impossible to devise a system of land rating or taxing which would make the burden fall with absolutely fair weight upon the shoulders of all persons subject to the rate or tax, *but unimproved capital rating generally reflects ability to pay and appears to be the fairest system for raising revenue, for local government purposes, from land.* Any attempt to remove what the Local Government and Shires Associations refer to as 'the disproportionate contribution as between the lowly valued and the highly valued property' can only be achieved if additional rate burdens are imposed upon the lowly valued property, and if that were done, persons with less ability to pay could well be adversely affected."

Among the alleged anomalies the Committee was asked to consider, with a view to devising remedies, was "The inability to discriminate between lands used for profit-making and otherwise." The Committee reported that "It found it difficult to accept as a principle that local government rating should be linked with the profit-making capacity of an industry. Such a principle was in no way related to "usage" of the local services, and it certainly would be one most difficult of application. It is in the interests of Councils to encourage the develop-

ment of industry in their areas, and for that reason Councils could, perhaps, be given power to rebate rates for a period pending successful establishment, but not on the score of equity in rating."

On the question of "special problems of highly developed areas and rapidly expanding areas, the Committee found "that—if development of such areas must be financed from local sources — the existing system of rating on the unimproved capital value was the best that could be offered to meet the need. Any other form of local taxation would be found to be less suitable—for example, rating on the improved value could slow down development and penalise those already settled there."

Another recommendation concerned high density housing development, on which the Committee advocated an amendment to the Local Government Act "requiring

Councils to treat for rating purposes all multiple unit residential buildings on the same basis as if they were registered under the Conveyancing ('Strata-Titles') Act, 1961." Under the latter Act multi-unit residential buildings, where the units are the property of the occupants secured by a "Strata Title," may be subjected to a special rate additional to their proportional share of the total rate on the unimproved value of the site. This concession to the short-sighted demands for more revenue from metropolitan councils the latter now want extended to all multi-unit residential properties, whether they are occupied under the "Strata-Title" system or not. The successful operation of the thin end of the wedge is thus to be used for levering a further crack in a system which the Committee itself has lauded as the only sound and equitable one.

APPLYING THE LAND-VALUE TAX

ANNUAL VALUE vs. CAPITAL VALUE

SHOULD THE SITE-VALUE TAX be imposed on capital (or selling) value or upon annual value?

The point is of considerable practical importance, for every tax which takes part of the economic rent of land diminishes the selling value. Other factors which tend to increase the value of land may obscure this effect, but it is nevertheless there.

The selling value of land is merely the capitalisation of the revenues which the owner expects from it in the future; it is the capitalisation of the net land rent left to the owner after deducting any tax payable in respect of that rent. Hence it follows that every increase in the taxation of economic rent diminishes the selling value of land. Thus to raise equal increments of tax revenue requires larger and larger increments of tax if the tax is based upon the selling value. This may be made clearer by the following illustration in which the rate of interest is assumed to be five per cent., and the economic rent of the plot of land in question is assumed to be 100.

Amount of rent taken in taxation	Amount left to the owner	Selling value of the amount in previous column	Rate of tax on selling value to raise amount in first column (per cent)
10	90	1800	0.555
20	80	1600	1.250
30	70	1400	2.143
40	60	1200	3.333
50	50	1000	5.000
60	40	800	7.500
70	30	600	11.667
80	20	400	20.000
90	10	200	45.000
95	5	100	95.000

The matter is, however, even more complicated because if it is anticipated that the rate of tax on the rent will be increased in the future, the value of the land will be depreciated by more than the amount of the existing tax. Moreover, the selling value is affected by the variations in the normal rate of interest. If the rate of interest fell from five per cent. to four per cent. the selling value would rise by 25 per cent., but if the rate of interest rose from five to six per cent. the selling value would fall by 16½ per cent.

It will thus be seen that considerable difficulties would arise in attempting to collect all economic rent by taxation of the selling value of land. In particular the task of attempting to explain to the general public why equal increments of tax did not produce equal increments of revenue would be almost foredoomed to failure.

Notwithstanding the fact that in every country where land-value taxation is in operation the tax is based on selling value, it is a matter for earnest consideration whether it would not be better to base the tax on economic rent (annual value). In the Bill promoted by the London County Council (which unfortunately did not become law) the proposal was that the tax should be levied on annual site value; and annual site value was defined as the amount of the annual rent for which the land would let in the open market on a perpetually renewable tenure assuming that there were no improvements upon it. It must be assumed also that the owner or lessor would be legally obliged to pay the tax, and that therefore the rent he would obtain would be the gross rent before payment of the tax. If the valuation is made on this basis, no complications arise from diminution of the selling value arising from the incidence of the tax, nor from variations in the