

Tax Threat To Local Democracy

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The Royal Commission on Local Authority Finance has recommended that rates should be reduced by about one third (between £6 and £7 million) and that the loss of revenue to local authorities should be made up by a tax of 2d in the £ on wages and other incomes.

THIS proposal tends to tangle local and national taxation. The latter already makes a charge on salaries and income for social security and income tax. The national Government's future needs are certain to fluctuate, and as a result tax rates will be altered from time to time. The central government may well be embarrassed if a portion of such taxation, or a parallel tax is levied on behalf of local government. Moreover, the basis of local revenue will be rendered insecure. It is desirable to keep absolutely separate the sources of revenue and subjects of taxation for local government and central government. There is no need to introduce the proposed undesirable complication into this field of taxation.

Strong local government depends on the power to tax. The Commission's proposal tends to reduce this power. This is a grave matter. The position is further aggravated by the Commission's recommendation that local authority revenues should be supplemented by a tax of 3d in the £ on petrol and an increase in the rate of the mileage tax. This would yield £3 million and would be added to the £4 million already distributed by the National Roads Board.

On the basis of the figures for 1955-56 (as the table shows) the proportion of local expenditure raised by local government would fall drastically.

	Present £ Million	Proposed £ Million
Revenue from rates	18.9	12.0
Subsidies from Government through		
National Roads Board	4.0	4.0
Licences, etc.	0.75	0.75
Tax on wages and income	—	6.9
New petrol tax	—	3.0
	£23.65	£26.65

Of which, raised by local government	£19.65	£12.75
as percentage	83%	48%

This radical redistribution of the sources of local body revenue and this surrender of its taxing power by local government is of tremendous importance. Illustrations of how local government authority can be completely emasculated are provided by what has happened to the education boards and hospital boards in New Zealand. Formerly, when they had the power to tax, they possessed considerable power and authority. Now they are mere creatures and agents of the central government.

Reduction of the local authorities' powers to tax, as proposed by the Royal Commission, must inevitably Condensed from the N.Z. Labour Party's weekly newspaper, **The Standard**, the fourth of a series by Dr. O'Regan.

reduce their independence and effectiveness. It means more dependence on central government, less power to decide and to act, more central supervision and less local initiative and control of local affairs. No more effective way could be found to destroy local government.

These theoretical considerations are unlikely to appeal to the extremely practical men whose task it is to get rid of local taxation on property at any cost. But there are some who recognise the very great importance of local government as an essential part of the democratic system. Because it is government close to the people it is good government. It is our chief and natural protection against an undue degree of centralism, government by bureaucrats and remote in personal control.

The Royal Commission's proposals are not the only means available for increasing the income of local authorities. There is one field of taxation from which the central government over the past 60 years has steadily withdrawn and that is from the field of land-value taxation. The central government has left this field to the local authorities. In one particular, however, the central government still levies a tax on land values in the Land Tax.

There was a time when the Property Tax was the principal source of revenue in this country. This was replaced by the Land and Income Tax and in this combination the Land Tax was at one time by far the more important. Now the Income Tax has become the principal source of revenue and the Land Tax has become quite minor and year by year the budget reduces its comparative importance.

In 1922 the Land Tax, out of a total budget of £16 million, produced £1.6 million or 10 per cent of the whole. Since then the value of money has more than halved and yet the Land Tax was estimated to yield in 1958, £1.4 million out of total taxation of £254 million.

This tax is paid, roughly speaking, half in urban areas and half in rural areas. It is paid only by the largest land owners. This tax has been in operation almost unchanged for 70 years. There is probably not a single property in the country which has not been purchased with this charge upon it. To abolish it, therefore, would mean a capital gain of £28 million (£1.4 x 20) to the largest landowners in the country. This is the reason why it has survived so long even through long periods of Tory administration. There has always been just sufficient of liberal sentiment surviving in the Tory party to make them shrink from making such an obvious gift to its traditional supporters. Therefore, the Land Tax should not and, in honesty, cannot be abolished.

There is a very good case, however, for distributing the proceeds of the Land Tax to local authorities and so handing the field of land-value taxation completely over to them. The Government would henceforth withdraw completely from direct participation in this source of revenue. This would give to the local authorities roughly about £1.5 million in taxation.

There is no reason why the level of the Land Tax should be kept so low. The effect of the tax is vitiated enormously by various exemptions, the most indefensible of which is the Mortgage exemption. This exemption provides that from the taxable unimproved value of the land a sum of up to £10,000 may be deducted on account of a mortgage. For example, a property whose unimproved value was £155,000 may have a mortgage of £10,000. In this case Land Tax would be paid only on the taxable unimproved value of £5,000. This, of course, is completely unjustified by any principle. The Taxation Committee, 1951, who recommended the abolition of the Land Tax said: "If land tax has any justification, the question for liability for tax should not relate to the existence or size of a mortgage on the property." If this Mortgage Exemption were abolished the Land Tax would probably produce a revenue of at least £3 million a year, a sum equal to the amount that the Commission propose should be raised

for the benefit of local authorities by the extra tax on petrol.

The proposed 3d in the £ petrol tax and the proposed transfer of the proceeds of a reformed Land Tax to local authorities would both give an extra £3 million to local government. The petrol tax, however, will filter through into prices at a thousand points as I have pointed out in a previous article. It will thus tend to raise prices which in effect a decrease in real wages. This to my mind is a very grave objection to this method of raising further local body revenue.

By contrast this objection does not hold in any degree against a reformed Land Tax. It will find a permanent place in our tax structure for this tax which has endured in this country so long and which is practically impossible with honesty and fairness to abolish. At the same time this proposal effects a complete separation of the field of taxation for local government and for general government and as such constitutes a real tax reform.

The Lords and Land Values

The Town and Country Planning Bill, having passed through all stages in the Commons, went before the House of Lords on April 14 and was given a Second Reading. The speech by Lord Douglas of Barloch is here reprinted in full, followed by extracts from other speeches.

IT IS certainly significant that the Lord Chancellor (Viscount Kilmuir) and so many subsequent speakers have devoted attention to the problem of site value or of betterment. This, I think, is inevitable in considering any legislation dealing with town and country planning and, indeed, that has been recognised by those who, during the last forty or fifty years or more, have taken part in these discussions. If I understood the Lord Chancellor aright, he himself admitted the principle which is involved in this; and so, I think, did Lord Gage, and other speakers, although some of them found difficulties in the practical methods of dealing with it. It is perfectly true that, as it has hitherto been handled, there are practical difficulties, and the Uthwatt Report is typical of the line of thought which has led to these difficulties. Indeed, it was, I think, inherent in the terms of reference of that Committee; or, at any rate, it was a shackle with which they bound themselves.

"It is impossible to deal with this problem from the point of view of trying to attribute to some particular public improvement a certain element in the value of land. It is impossible to distinguish the various factors which have contributed to creating the value of any site: and it is still more difficult to deal with this problem if it is proposed to start out by taking some arbitrary date and

calculating increases of site value which have arisen after that point. That is the reason why the measure introduced by Mr. Lloyd George in 1909 broke down in practice; and that is the reason, in my opinion, why the provisions of the 1947 legislation also produced very little result.

"But it does not follow from that that the problem is insuperable, or that it is intrinsically of very great difficulty. What is required to be done is to separate this question of site value as an administrative and legislative matter entirely from the question of town and country planning. The site value problem is, in its essence, a fiscal problem, which ought to be dealt with upon fiscal principles; and as in fact site value is entirely a monopoly value—a community value, if you like to put it that way—which is due to the whole environment in which any particular site is situated, it ought all to be made a basis of taxation or of local rating, as the case may be, not attempting to identify some particular slice of it and to make that alone contribute to the public revenue.

"I sympathise with what Lord Hylton said, up to a point. I do not want to see this made a cumulative measure of taxation, or of local rating, in addition to what already exists: but, at any rate, it is reasonable to propose that in substitution for some part of the local rates which are levied upon the value of buildings and improvements to land there should be levied instead a rate upon the value of sites alone, irrespective of the building and improvements placed upon them. That would serve two purposes: it would recover for the community some part of the communal value which the community has created; and it would at the same time help to relieve from the burden of local rates the capital expenditure on improvements which are made to the land in order to render it productive and useful.

"It is in that kind of way, and in that way alone, that a solution will be found for this problem, and on a very

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