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 $16\frac{2}{3}$ 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 rate of interest affecting the rate of capitalisation; and *every increment of tax will produce a corresponding increment of revenue.*

COLLECTION OF THE TAX

Where the land (and the buildings upon it) are owned and occupied by one person, it is evident that that person enjoys or has the power to enjoy the whole of the economic rent, and he should be responsible for payment of the land-value tax. Where the buildings are let to one or more persons for short tenancies, for example, weekly, monthly, or quarterly, it may be assumed that the tenants are paying rack rents, and that the landlord is receiving the full economic rent. In this case the landlord should be required to pay the land-value tax.

There are other cases in which the whole of the economic rent is not enjoyed by one person. Particularly where land values are high, it is common to find land let upon long leases. In that event the rent payable under the lease may differ from the economic rent of the land. If the rent payable is equal to or greater than the economic rent, the whole of the land-value tax should be payable by the lessor. If the rent payable is less than the economic rent, then there is a balance left in the hands of the lessee. The lessor should therefore pay the tax on so much of the economic rent as he receives and the

lessee should pay the balance. It is inconvenient, however, that the taxing authority should look to more than one person for payment, and a practical means of arriving at the same result is to provide that the lessee should pay the whole of the land-value tax and should be empowered to deduct the whole tax from the rent he pays if that rent is equal to or exceeds the economic rent, or deduct a proportionate part of the tax if the rent he pays is less than the economic rent.

In any case, the collection of the land-value tax should be fortified by making the tax a first charge upon the whole property, and if default is made in payment the like powers of enforcing this charge should be granted to the taxing authority as the law gives to mortgagees for enforcing payment of money secured by mortgage.

Auckland Must Be Won

WE FIRST HEARD about the struggle to secure unimproved capital value (site-value) rating in Auckland, New Zealand, from E. P. Middleton, in his "New Zealand News Letter," (LAND & LIBERTY, February). The position then was that the first campaign for a poll on the subject narrowly failed because of insufficient time in which to collect the required number of signatures. The organisers, however, were sure of success the following year.

The latest news comes from Mr. McGuigan of Wellington. The required number of signatures for a poll has now been obtained, and the poll is to take place December 7.

The Auckland City Council is generally unsympathetic to the proposed change, and has been attacked by the Glen Innes Residents and Ratepayers Association (the original motivators of the poll), for its intention to issue, at ratepayers' expense, a brochure giving the Council's views on the alternative rating systems.

The Auckland city valuer has advised the Council that the introduction of rating on unimproved values would present very real problems and serious anomalies. The Glen Innes Ratepayers Association has commented that "since his (the city valuer's) valuation department will be redundant if the rating basis is altered to the unimproved value, it is impossible to consider him as an impartial and unbiased adviser."

The New Zealand Herald is also unsympathetic to a change. Reflecting a growing opinion in both Australia and New Zealand, it stated in a leading article, November 6, that "Most ratepayers would prefer to see a concentration of effort on a search for supplementary or alternative sources of municipal revenue."

Auckland is the only large town in New Zealand that does not rate on unimproved capital values. In view of the growing controversy over this form of rating, a clear victory in Auckland for the change to site-value rating would be a tremendous boost for advocates of the system. For this reason, as Mr. McGuigan says, the Auckland poll *must* be won.