

# Putting those

WHITEHALL has a file marked Site Value Rating. It contains the stock answer used by ministerial spokesmen when they are challenged to consider the advantages of reforming the British property tax.

Mr. C. Talbot-Ponsonby of the Environment was the last to use the scatter-gun objections in April 1982, in reply to Mrs. Barbara Sobrielo, the Secretary of the United Committee for the Taxation of Land Values.

The official case against the tax on site values does not seem hard to demolish.

**OBJECTION** "It would be very difficult to operate such a tax in Britain in view of the form of planning law (which does not lay down in advance the permitted development of every plot of land)."

**ANSWER** It is not necessary to lay down the precise use for every site. The general rule would be that the land tax would fall on the value that was determined by the "highest and best use" within the framework of existing planning law.

Values would be set by the free market, and valuations by the rating department would be subject to appeal in the usual way.

Prof. A. R. Prest of the London School of Economics puts it this way:

"The introduction of a local tax on site values would mesh in with the planning permission system (assuming the tax base is potential rent levels) in the sense that refusal of planning permission would immediately reduce the local authority's revenue compared to what it would have been, provided that adjustments to central government grants did not make good any resultant shortfall."\*

**OBJECTION** The tax would be difficult to administer because of "the system of land registrations".

**ANSWER** While the tax ultimately falls on owners, the rating authorities would not have difficulty in collecting the money from current users who, in turn, if they were not the owners, would make the appropriate deductions from their rental payments.

The difficulty of tracing owners of

● POLITICIANS regularly talk about the need to "reform" the rating system, but by this they usually mean changing a few numbers (higher subsidies, more exemptions) rather than altering the structure of the property tax itself.

● There is one change only that could constitute an effective reform: shifting the burden off capital improvements (drains, walls, houses, skyscraper office blocks) and onto land values.

● Not since the old London County Council sought to change the law in favour of site value rating in the 1930s has the British political system made a serious attempt at evaluating this reform.

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vacant land can be surmounted, as well: the tax authority would impose a lien on such property, collecting the back taxes when the owner finally turned up to sell his property.

**OBJECTION** Government Ministers "are also doubtful about its potential benefits in a country such as Britain where most urban areas are already fully developed."

**ANSWER** Successive Tory Ministers at the Department of the Environment have now made it abundantly clear that there is a primary problem in persuading inner city landowners to put their sites to good use. They have also expressed concern at urban sprawl, which has been at the expense of prime agricultural land.

A tax on site values is the best free market solution to this complex set of problems, and it is doubtful whether Ministers in Mrs. Thatcher's government do, indeed, hold the view attributed to them in this objection.

**OBJECTION** The Layfield report concluded that site value rating "would not be a suitable or firm enough base for raising local revenue."

**ANSWER** Tax authorities around



● A. R. Prest

the world have shown how this proposition is a vacuous one. Major cities such as Pittsburgh, Pennsylvania, and Johannesburg, in South Africa, use the system.

And countries ranging in size from Australia to Jamaica have found site value rating a practical way of raising revenue.

Experts such as Jamaica's former Commissioner of Valuations, Mr. O. St. Clare Ridsen, would reject this objection out-of-hand.

**OBJECTION** "Local accountability would not be promoted".

**ANSWER** This is an emotive objection which actually obscures the political realities.

If accountability is considered to be a function of the proportion of local expenditure financed out of locally-generated revenue, then site value rating could advance the cause. All that would be necessary would be to:

(a) increase the rate of taxation on site values, to claw back for the public's benefit the value that was created by the community, in the first place; and

(b) reduce expenditure until the council budget was balanced.

But accountability cannot be restricted to the duties of politicians. People who hold land, the value of which is socially created, ought to be called to account for their possessions: and this is executed perfectly by site value rating!

**OBJECTION** "The practical difficulties were formidable and at least a decade would be needed to put site value rating into use, with a long period of transition thereafter before

# doubters to flight

Six key answers to officialdom's

case against site values tax

it could become fully operative."

ANSWER If something is worth doing, then it must be worth doing properly – even if this takes time.

But Britain *could* institute this reform within the lifetime of a single Parliament, beginning with self-assessments, and simultaneously launching a programme of valuing land in its unimproved state.

Seventy years ago, after Lloyd George introduced his Finance Act which sought to capture part of the value of land through the national exchequer, the Inland Revenue's experts readily conceded that there were no practical difficulties in compiling a roll of land values that could

be kept up to date at a lower cost than under the present system.

CIVIL servants are swaying with the political wind, priming government ministers with tailor-made excuses for not radically reforming the rates system.

Spurious arguments are invented to justify inactivity: 10 years have been wasted by the Tories. During that time they could have advanced reform to the point where, at the next general election, they could have reaped rich rewards.

Instead, they are now paying the



● O. St. Clare Risdien

price of weak leadership and ideological confusion: this is reflected in their irrational statements and weakening electoral support.

For a decade, now, Mrs. Thatcher has wailed in the wind against the property tax. But if she looked closer at it, she would find in the rates system the answers to many of the economic problems that now beset Britain.

\*A. R. Prest, *The Taxation of Urban Land*, Manchester University Press, 1981, p.188.

## COMMUNITY 'DUE' FOR BENEFIT

### OF EVERYONE . . .

THERE is one situation only in which it can be maintained that there ought to be a perfect correspondence between tax liability and accountability.

This focuses the debate on land values, which capitalise the aggregate benefits accruing to specific sites.

These benefits, provided by the community, include fire and police protection, amenities such as schools, and social infrastructure (roads, railways), and so on.

The beneficiaries of these services – the landowners – ought to pay a tax that was proportionate to the benefits.

This would be achieved

through site value taxation. A tax on land values – unlike other taxes – cannot be passed on. This is one of the unconventional laws of economic theory: see, for example, Adam Smith (1776: 5, ii, 1), John Stuart Mill (1848 5, iii, 2) through to the most recent restatement by Prof. James Heilbrun (1983: 58).

The thrust of this analysis, however, shifts the focus of accountability from the recipients (the spending councils, on which Mrs. Thatcher has tended to focus in her campaign to abolish the

property tax) to the taxpayers.

The land tax has been labelled a "super user charge" by Walter Rybeck, an expert on the property tax who is based in Washington, DC.

He points out that the landowner is called to account for his possession of land through the

HEILBRUN, James, 1983: *Who Bears the Burden of the Property Tax?*, in C. Lowell Harris, ed., *The Property Tax and Local Finance*, NY: The Academy of Political Science.  
MILL, John Stuart, 1848: *Principles of Political Economy*.  
SMITH, Adam, 1776: *The Wealth of Nations*.

payment of a tax which corresponds to the benefits assigned to his property.

The realisation that there is a precise correspondence between benefits and the payment of a land value tax, does not amount to an argument for limiting the right to vote to landowners.

For this tax is the payment of a "due" to the community, for the benefits provided by the community.

Accountability, then, is restricted to the principle of one-man-one-vote, which is the basis of western democratic philosophy that makes no concession to special interest groups (by their consumers, the business community, or whoever).