

# The Union of South Africa<sup>1</sup>

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THE PRINCIPLE OF LEVYING TAXATION ON THE CAPITAL—that is to say the selling—value of real estate, the land with any buildings and improvements thereon, is universally applied in South Africa for obtaining the revenue of municipal local government. In this respect the country has adopted the same practice as obtains in the United States. The result is that land, whether used or not, is subject to taxation. This is in sharp contrast with the system in Great Britain, where landed property is assessed for taxation only when it is occupied and used, so that, the assessment being the presumed annual rental payable by a tenant, all unoccupied landed property, however valuable it may be, is exempt from taxation. On the other hand, whereas in the United States<sup>2</sup> the rule

<sup>1</sup>South Africa is a union of four provinces—the Cape of Good Hope (often called Cape Province), Natal, the Transvaal and the Orange Free State. The Union Parliament legislates for the whole country, leaving, however, certain matters such as local government and local taxation in the control of each province through its elected legislative body, the Provincial Council.

<sup>2</sup>The matter of valuation procedure also follows the one widely used in the United States. The value of land is ascertained separately from the

is (with a very few exceptions) to levy the taxation at a rate that falls equally ad valorem on land and on improvements, South African taxpayers may choose among three methods how their municipal revenue shall be raised. To use South African terms, these three methods are: "flat rating," "differential rating" and "site rating."

Thus:

1. *Flat Rating* means a uniform rate on land and improvements. This is the long-established system prevailing throughout the country excepting where, latterly, systems 2 or 3 have been resorted to.

2. *Differential Rating* means a lower rate on improvements than on land values.

3. *Site Rating* means taxation falling on the value of land only.

The purpose of this survey is to see to what degree the old flat-rating system has given way to differential rating and to site rating so that the burden of local taxation is transferred in part, or completely, to land values.

#### THE TRANSVAAL

Ordinance No. 1, passed in 1916 and later consolidated in Ordinance No. 20 (1933), governing the valuation and taxation of real estate, altered the old flat-rate system which had applied in this province and made possible the proportionally greater taxation of land values

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value of land and buildings taken together and is shown separately in the valuation rolls. Valuations are made triennially in the Transvaal and in the Orange Free State and "as often as may be deemed necessary" in the other two provinces.

and the correspondingly reduced taxation of improvements.

According to the law, site (land) value is defined as follows, and in general this definition applies in the other provinces as well.

"Site value of land" shall mean the capital sum which the land or interest in land might be expected to realize if offered for sale on such reasonable terms and conditions as a bona fide seller would require, assuming that the improvements, if any, thereon, or appertaining thereto, had not been made. The site value of land shall include any value due to any franchise, license, privilege or concession attaching to the site for the time being.

Each municipality in the Transvaal is required to levy a rate or tax of at least 1d. in every pound of land value as defined above.<sup>3</sup> Beyond that, the municipality is free to increase the land-value tax until a maximum of 7d. has been reached, which maximum may be further extended by the Administrator, or the municipality may resort to the taxing of improvements within specified limits. If improvements are taxed, however, at least an equal amount must be levied simultaneously upon land value in addition to the original penny, and the rate on improvements may never rise beyond the point at which its yield, combined with the yield from the corresponding land-value tax, would equal the equivalent of 3d. in the pound on the composite value of land and improvements.

<sup>3</sup>In considering the amounts which follow, it will be useful to American readers to keep in mind that there are 240 pennies in the pound. A tax rate of 6d. would therefore be equivalent to a rate of 2.5 per cent. A tax of 7d. is equivalent to a rate of almost 3 per cent.

In 20 of the 60 urban municipalities in the Transvaal, the real estate taxation is levied wholly on land values. One of these is the city of Johannesburg. In the other 40 there is differential rating, with a much smaller charge on improvements than on land values. In Pretoria, for example, during the fiscal year 1952-53, the rate on improvements was only 1.25d. as compared with 7d. on land values.

Johannesburg was the first of the 20 municipalities to levy rates on land values only, and since 1918-19 that city has raised its general tax revenues in that manner.<sup>4</sup> The 1952-53 land-value rate was 4.5d. in the pound. This represents a considerable decrease over the 1947-48 rate, which was 7.5d. The lowering of the rate in the pound is made possible because land values in Johannesburg have risen enormously in recent years—  
× from £90,658,700, according to 1947-48 statistics, to £188,641,000 in 1952-53. The lower rate,<sup>5</sup> therefore, provides sufficient revenue to meet the city's current budget and, at present, that is all that Johannesburg aims to accomplish through its land-value tax system.

One anomalous feature of the system of local rating used in the Transvaal is the partial exemption of land used for farming. The law provides that "land being not

<sup>4</sup>That is, apart from such revenue as is derived from profit on municipal undertakings such as electricity, gas and transport, and apart from the specific charges made for water supply and sanitary services. The practice of making a separate charge for water consumption and for sanitary services is widespread in South Africa, but it is of little consequence in the over-all consideration.

<sup>5</sup>But to lower the rate when land values are rising lessens the power of the tax to curb land speculation.

less than three morgen [six acres] in extent, bona fide and exclusively used for agricultural purposes, or land irrespective of size laid out under the provisions of the Agricultural Holdings Act and any other land which the owner is precluded by any law or servitude from using for any other purpose than agriculture" shall be rated at one quarter of its site value, even though it may be located adjacent to an urban area and be ripe for subdivision. As can be seen, this provision in the law provides shelter for speculative holdings and helps to defeat the purpose of land-value rating.

#### CAPE OF GOOD HOPE

There are 145 municipal (local governing) bodies in this province. Under Ordinance No. 17 of 1917, amended one year later, they may, if they wish, depart from the flat-rating system and levy their local taxation on either the differential or the site-rate system.

East London and Cambridge, since amalgamated, commenced the transfer of taxes in 1918 and have proceeded by gradual stages to shift the burden more and more to land values. The 1952-53 rates for this city were in the ratio of almost one to 10—1.87d. on improvements and 17.77d. in the pound on land values.

In Kimberley, since January 1945, the city taxes have been levied on land values. In 1952-53 the rate was 20d. in the pound.

Since 1947 four other towns have been operating under the differential system; namely, the three considerable municipalities in the vicinity of Cape Town—Fish Hoek, Goodwood and Parow (with an aggregate

population of 75,000)—and the small town of Hankey in another part of the province.

#### ORANGE FREE STATE

Ordinance No. 11 of 1925 confers upon the 65 municipalities in this province the power to transfer town taxes to land values for all purposes excepting water supplies and sanitary services. Fifteen of the 65 municipalities have exercised this power, and Bloemfontein, the provincial capital, has exempted buildings (excepting for the sanitary rate) since April 1950, making the change-over from the old flat-rating system in three years.<sup>6</sup> At the time the change was voted the City Council of Bloemfontein urged an amendment to the 1925 ordinance in order to enable local authorities to levy rates on land values for the sanitary services also. Up to this time the amendment has not been made.

The 1952-53 rates for Bloemfontein were 8d. in the pound on land values and 1.25d. additional sanitary rate, levied on land and buildings combined.

#### NATAL

Municipalities in Natal may use either the differential or the old flat rate. The use of the differential is spreading, and of the 35 municipalities in this province, 23

<sup>6</sup>*The Friend*, one of the four most influential daily newspapers in South Africa, in its issue dated November 27, 1947, welcomed this action by the Council and declared that it was "strengthened by the fact that at the recent Conference of estate agents held in Durban—a Conference attended by men with an intimate knowledge of property values and the public needs both as regards sites and buildings—the principle of 'site rating' was definitely endorsed as the most advantageous system from all points of view."

now apply it, only 12 clinging to the uniform flat rate applicable to composite value. The city of Durban led the way for the 23, making the change in 1923. The 1952-53 tax rates for Durban (including the water charge) were 3.75d. on improvements and twice that—7.5d.—on land values.

#### MINING LAND

The law in the Transvaal relating to the mining of precious metals explicitly vests in the State the sole right to mine for gold. However, there is no pressure of any kind placed upon the owner of gold-bearing land to use it or allow anybody else to use it. When prospecting has been allowed and gold has been discovered and the land proclaimed as a gold-mining area, the government permits the owner certain valuable rights and proceeds to lease the right to mine for gold. However, as mining, in most instances, requires a considerable amount of working capital, there is very little genuine competition for these leases; therefore, although the amount received by the government is in the aggregate fairly considerable, it is generally a very small portion of the real value of the right to mine.

#### PROGRESS BY PROVINCES

While nothing spectacular can be reported concerning the progress of land-value taxation in the Union of South Africa, the new system obviously has gained much more than a foothold. The following table compares the number of land-value-taxing municipalities with the total taxing units in each province.

1952-53

	TOTAL TAXING UNITS	RATING LAND VALUES IN WHOLE OR IN PART
Transvaal	60	60
Natal	35	24
Orange Free State	65	15
Cape Province	145	6

Legislation effective throughout all four provinces allows the councils to act for their districts in the matter of changing from one system of taxation to another. The device of rating polls is also available to the property owners here, as it is in Australia. These polls may be held either to authorize the council to install the new system or to revoke action which the council may have taken. Only in East London have reversion polls been attempted, but none has succeeded. In South Africa, as in Australia, it is shown that, once the practice of relieving improvements from taxation has been experienced, it remains established for good.

#### THE RHODESIAS AND KENYA COLONY

A note should be added to this survey to include those neighbors of the Union of South Africa, the Rhodesias and Kenya Colony.

The Rhodesian Municipal Ordinance of 1914 permits municipalities to differentiate in their taxation between land and improvements. The city of Salisbury in Southern Rhodesia gave effect to this in 1915 by making the tax on improvements a quarter of that on land values. That ratio has been maintained. The 1952-53 tax rates for Salisbury were 5.2d. in the pound on land values and 1.3d. in the pound on improvements. Bula-



wayo adopted differential rating in 1917, and soon afterward Gatooma, Gwelo and Que Que followed suit.

In Northern Rhodesia, Livingstone, the capital, and four other towns have taken similar action.

In Kenya Colony, Nairobi, since 1921, has levied its rates on land values only, and the same is true of the city of Mombasa since 1949. Because of the unsettled conditions in this area, there has been little opportunity for municipalities elsewhere in Kenya to give attention to improving their tax systems, although all are permitted to relieve improvements under existing legislation.

As a concluding comment to this survey, it may be appropriate to quote from the findings of the Taxation Enquiry Committee appointed in 1947 by the Kenya government. With regard to local taxation, the report said: "Under the site-rate system no penalty is entailed in the erection of new buildings or the improvement of existing buildings. . . . Moreover, on a site-rate basis the owner may in all respects be said to bear his due proportion of the costs of communal municipal services. It conforms no less well to the revenue norms of elasticity and certainty; it is equally economical to administer. . . . From the fiscal point of view and bearing in mind the present need to encourage development, the Committee favours the site-value system in the taxation pattern of the Colony and the principle of levying a comparatively high rate on land, thus ensuring that it will not be left idle or insufficiently developed for long, rather than the taxation of improvements."