

CORRESPONDENCE.

HOW THE TAXATION OF LAND VALUES WOULD RELIEVE THE RATEPAYER.

(To the Editor, LAND VALUES.)

SIR,

In the October issue of LAND VALUES there is an article under the above heading by J. W. Graham Peace, purporting to show how the occupier of leasehold and freehold dwellings would benefit by the substitution of the taxation of land values for the present system of local rating. An example of each kind of occupation is given, showing that in the case of the occupiers of leasehold houses the occupier would benefit to the extent of £10 18s. 8d. out of £12 5s. 4., and in the case of the freehold dwelling houses the occupier would benefit to the extent of £8 6s. 4d. out of £10 14s. 8d. In the latter case the occupier is also the owner, and is taxed on the value of his site; yet, notwithstanding, he benefits to the above extent by the adoption of taxation on land values in lieu of the present system of rating on the annual value of his house.

For the purpose of illustrating his argument, Mr. Peace has divided the present local rating into two portions, one of which he terms for "National Purposes" and the other for "Local Purposes." The former amounts to 40·83d. and the latter to 5·17d. in the pound on the rateable value of the house. The 5·17d. in the pound would be paid by the occupier. The 40·83d. in the pound would be collected by means of a "Budget Tax" on all "Land Values." In both the cases shown for illustration the ground rent is given at £6 a year and the land value of the site as £150.

Mr. Peace assumes that 2d. in the £ on all land values, would provide an income sufficient to cover that portion of the rates taken off the shoulders of the occupiers (I take it that he means this, otherwise what would be the value of his illustrations, since it is upon this assumption that he shows a saving to the ratepayers, and particularly in the case of the freeholder) by the adoption of the system of taxation he advocates.

Now 2d. in the £ on the site values in the above-mentioned examples amounts in each case to 25s., which means, roughly, one-eighth of the amount taken off the shoulders of the ratepayers—that is averaging the two examples.

The question that arises in my mind is—where is the remaining seven-eighths to come from? The only source that I can see is the undeveloped land. Now the area of the undeveloped land in the United Kingdom is not one half of that of the developed land. Surely Mr. Peace does not expect a tax of 2d. in the pound on undeveloped land to yield seven times as much as a like tax on developed land.

Mr. Peace may argue that the present stated land values are not the true values. This argument cannot, however, I think, be applied to ground rents. These rents are fixed by covenant, and cannot be altered until the leases expire. In the case of agricultural land, the land values might certainly be increased by the amounts of the rates now paid by the occupiers, but then the landlords would assuredly increase the rental values of the occupations, so as to recover whatever taxes were placed upon the land, and indeed they would have to do so if they intended to get any reasonable return from their lands, and this increased rental would be paid by the occupiers, providing it added no increase to their present outgoings for rent and taxes.

There is another way at looking at this question. Mr. Peace shows in his division of the local ratings that 5·17d. or about 11 per cent. of the total would be borne by the occupiers, the remaining 89 per cent. being borne by the landowners.

Taking the year 1908—9 as an example, the amount of the local rates for this period was about 70 millions; 89 per cent. of this amounts to 62·3 millions. The Government Subvention for this year was about 25 millions, making a total of 87·3 millions to be provided by the Budget Tax of 2d. in the pound on land values. Now to obtain 87 millions by a tax of 2d. in the pound we would require a capital value in land of 10,476 millions sterling. Our present annual value of land has been estimated by Mr. Chiozza Money at 106 millions; capitalising this at 25 years' purchase (the number of years used by Mr. Peace) we get 2,650 millions, that is only about one-fourth of the required value. I ask Mr. Peace does he believe it possible to stretch the amount of land values to four times their present amount, seeing that no increase can be made in the leasehold sites (from which the bulk of the present land income is derived), and that whatever increase was made in the value of agricultural sites would be counterbalanced by increased rent?

There is a moral aspect to his question that ought not to be overlooked—why should the owners of ground rents be compelled to pay for the cost of the services enumerated for the Budget tax, such as Education, Poor Relief, Roads, Police, &c.? These are services the benefits of which the whole of the community share; then why should their cost be placed upon the shoulders of a portion of the community only, and not upon those of the whole of the community? To my thinking the placing of these burdens upon a portion of the community would be an unjust arrangement and not at all in accordance with the doctrines preached by the majority of the advocates for the "Taxation of Land Values."

I myself am in favour of the taxation of land values, but not according to the system shown by Mr. Peace. The object of the taxation of land values, as I understand it, is to bring about a measure of justice in the taxing of undeveloped land and to remove the burdensome tax on improvements.

Yours faithfully,

CHAS. LEWIS.

13th September, 1912.

[In the example quoted by Mr. Peace the value of the site (£150) bears only a small proportion to the value of the composite property, which having a rental value of £40 would have a capital value at 25 years' purchase of £1,000. In a case of this kind the rate would be very much reduced by taking land value alone as the basis of assessment and the relief would be made good on those properties where the proportion of land value to composite value was higher. For instance, twenty such houses as instanced by Mr. Peace would have a total composite capital value of £20,000 and the relation of land value to improvement value would be £3,000 to £17,000. But in the centres of towns the relation is quite different, the land value often amounting to 60 per cent. of the total. In the latter case a property of the total value of £20,000 might, when the values are separated, be made up of £12,000 land value and £8,000 improvement value. Under the existing system the £20,000 in the suburbs and the £20,000 in the centre are responsible for equal contributions to the rates. But if land value were the basis of assessment the burden in the suburbs would, as Mr. Peace asserts, be much diminished. The difference would be made good not only from undeveloped and under-developed land but also from the properties in the centres, where, even on fully improved sites, the proportion of land value to improvement value is high.]

There is no other way of looking at the question. The basis of assessment both for local rates and for the Budget tax would be the separately assessed land value, and we do not see how Mr. Peace can be represented to have claimed that so much would be borne by the "occupiers"