

Report Part Title: APPENDIX I.1 HISTORY OF ATTEMPTS IN LAND VALUE TAXATION IN BRITAIN

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APPENDIX I.1
HISTORY OF ATTEMPTS IN LAND VALUE TAXATION IN BRITAIN

Schedule of Legislative Proposals [Source: Simes Committee Report (1952: 23-24)]

<i>Proposal</i>	<i>To meet Local Expenses</i>	<i>Levied on Annual or Capital Value</i>	<i>Limitation on amount of rate</i>
Royal Commission on Housing of Working Classes, 1885.	Part of it	-	-
L.C.C. Evidence to Royal Commission on Local Taxation, 1899.	Part of it	Capital	6d. in £. (2.5%)
“Separate Report” of Royal Commission on Local Taxation, 1901.	Part of it	Annual	To be fixed by Parliament
Judge O’Connor’s Minority Report (Royal Commission on Local Taxation), 1901.	Whole	-	--
L.C.C. Bill, 1901.	Part of it	Annual	2s. in £. (10%)
Mr C. P. Trevelyan’s Bill, 1902	Part of it	Annual	2s. in £. (10%)
Dr T. J. MacNamara’s Bill, 1903	Part of it	Capital	1d.in £. (0.42%)
Mr. C.P. Trevelyan’s Bill, 1904 and Sir John Brunner's Bill, 1905	Part of it	Annual, defined as 3% of capital value	Same rate on improved value of occupied, and unimproved value of occupied land
Land Values Taxation (Scotland) Bill, 1905	Part of it	Annual, defined as 4% of capital value	2s.in £. (10%)
Select Committee on Land Values Taxation (Scotland) Bill, 1906	Whole	Annual	--
Finance (1909-10) Act, 1910	Part proposed but undetermined	Capital	Incremental and Reversionary Duties (10%) Levy on undeveloped land (0.21%)
Departmental Committee on Local Taxation, 1914 (Minority Report)	Part of it	Annual Capital	10% of amount raised in rates plus half of any future increases
Manchester Bill, 1921	Part of it	Annual, defined as 5% of capital value	-
Finance Act, 1931	-	Capital	1d in £ (0.42%) originally proposed
Mr. J.C.(later Lord) Wedgwood’s Bill, 1932	Whole or Part of it	Capital	-
Mr. A. MacLaren’s Bill, 1937	-	Annual	-
L.C.C. Bill, 1938-39	Part of it	Annual	2s.in £. (10%)

THE FOLLOWING INFORMATION ON THESE MEASURES WAS DERIVED FROM EVIDENCE PRESENTED TO THE SIMES COMMITTEE

Royal Commission on the Housing of the Working Classes, 1885

The argument which weighed most heavily with them was that land value taxation would increase the supply of land available for housing. They considered that the existing rating system was an impediment to the acquisition of land which should have been available for working class housing on the outskirts of towns.

The Commission argued that such land if it were rated at, say, 4% on its selling value, the owners would have a more direct incentive to part with it to those who are desirous to build and a twofold advantage would result to the community.

First, all the valuable property would contribute to the rates, and thus the burden on the occupiers would be diminished by the increase in the rateable property. Secondly, the owners of the building land would be forced to offer their land for sale and thus their competition with one another would bring down the price of building land.

Select Committee on Town Holdings, 1892

This Committee reported against the rating of ground rents. First, it argued that ground rents were already in a sense within the scope of the rating system in that rate poundages affected their values, so that to subject them to an additional levy would be anomalous and inequitable. Secondly it was held that through the normal process of tax shifting part of the effective incidence of the existing rate would frequently be borne by landowners, in accordance with the working of the laws of supply and demand. Thirdly it was contended that ground landlords derived little or no benefit from the current expenditure of local authorities.

Royal Commission on Local Taxation, 1901

This Commission was appointed to enquire into “the present system under which taxation is raised for local purposes, and report whether all kinds of real and personal property contribute equitably to such taxation and, if not, what alterations in law were desirable in order to secure that result”.

The Commission reported in 1901 and three different views were apparent. Majority of the Commission (nine members) were against the rating of site values in any form; 5 members (including vice-chairman Lord Balfour of Burleigh reported in favour of substituting a rate on site values for part of existing rate and one member (Judge O'Connor) was in favour of a total transfer of rate liability to sites.

Evidence submitted by the L.C.C. considered that, as the expenditure of occupiers had contributed to the increase in site value, an additional source of revenue should be sought as a partial relief to them. It was submitted that this could best be accomplished by rating the owners of sites, more especially since much, if not all, of the improvements to increased expenditure accrued to the latter's benefit. The L.C.C. proposals were embodied in a Bill: "**Site Value (London) Rating Bill**" introduced into Parliament in 1901.

Private Bills, 1902-1905

Several Bills advocating land value taxation, were introduced to Parliament by private members (e.g. C. P. Trevelyan, T. J. MacNamara, and Sir John Brunner) during this period but none were successful in reaching the Statute Book.

Land Values Taxation Scotland Bills, 1904-6 and Report of Select Committee, 1906

The Bills passed their second readings and then the matter was referred to a Select Committee of the House which approved of the principle of the Bills, viz. "the setting up of a standard of rating whereby the ratepayer's contribution to the rates is measured by the yearly value of the land, which he owns or occupies, apart from the buildings and improvements on it". They considered that this was justified by the fact that "land owes the creation and maintenance of its value to the presence, enterprise and expenditure of the surrounding community" and because it is well "to select a standard of rating which will not have the effect of placing a burden upon industry". They held that the "valuation of building sites is practicable, and not more difficult or uncertain than is the valuation of many other subjects".

To implement this recommendation, legislation was introduced in 1907, the Land Values (Scotland) Bill. Despite twice been passed by the Commons it was rejected by the Lords and the Government eventually decided not to proceed with the measure.

Land Value Duties (1910) Act

The next legislative step was the enactment of the land value duties under the Finance (1909-10) Act, 1910.

They comprised:

- (1) an increment value duty on land sold or subject to long leases, payable on transfer or death of owner;
- (2) a reversion duty of 10% on the termination of a lease of 21 years or over except on land with purely agricultural value;
- (3) an annual levy of one half penny in the £ of capital value on undeveloped land other than house gardens, land with a purely agricultural value, or land worth not more than £50 an acre;
- (4) a 5% levy on mineral rights.

The legislation was extremely complicated; it should be especially noted, however, that there was no attempt at a general levy on the site value of land. Of more direct interest to our enquiries is the definition of site value, on which these duties were to be based.

The assessable site value was defined as the sum which the property would realise if offered for sale by a willing seller in the open market, subject to ordinary rates and taxes and in its actual condition as regards buildings and other structures, subject to fixed charges, public rights of way and user, easements and restrictive covenants, less any value in respect of:

- (a) buildings and any other structures, and all growing timber, fruit trees etc.
- (b) works or capital expenditure by the owner, executed or incurred for the purpose of improving the value of land as building land or for any business or industry other than agriculture.

Before the Act of 1910 had being passed, Government promised, after protests from local authorities, to allocate to them half the proceeds of these duties by the Revenue Act of 1911, however, this concession was suspended up to 31 March, 1914, and the basis of distribution was never determined.

Departmental Committee on Local Taxation Report, 1914

This Committee had before it be proposals for a limited site value rate in urban areas, coming from the various private members Bills between 1902 and 1905, and the land value taxes of the 1910 Act. The majority of the Committee recommended against any rate on site values. The minority, however, accepted the Separate Report of the Royal Commission and went further in recommending that the principle should not be confined to urban areas alone, and that its application should not be at the option of local authorities and that no attempt should be made to limit it to meeting expenditure tending to increase the value of land.

Select Committee on Site Value Taxation, 1919

This Committee was appointed “to enquire into the present position of the Duties imposed by Part I of the Finance (1909-1910) Act, 1910”, and other matters connected therewith. However in the Budget of the following year, the Chancellor of the Exchequer declared that the 1910 duties were unworkable in their existing form, had produced hardly any revenue and would require amended legislation of a highly technical character if they were to be revitalise. He accordingly decided to repeal them in the Finance Act of 1920 and the revenue collected was repaid to those who had contributed to it.

Dunedin Committee, 1922

This Committee concluded in respect of a rate on site values, that land already bore its share of rates and that the value of land did not inevitably rise as a result of the expenditure of the

community; indeed, sometimes it fell. They therefore felt that they could not recommend the rating of site values.

Finance Act, 1931

Taxation of land values for national purposes was provided for, for the second time, in the Finance Act, 1931. The Commissioners of Inland Revenue were directed to ascertain as at 1 January 1932, the land value of each land unit, which was defined as “the amount which the fee simple thereof with vacant possession might have been expected to realise upon a sale in the open market on the valuation date upon the assumptions that there were not upon or in the unit any buildings, erections, or works, except roads etc. or anything growing on the unit except grass etc.”.

Valuation under this Act was suspended by the Finance Act of 1932 and the provisions of the 1932 Act were finally repealed by the Finance Act of 1934.

Local and Private Bills, 1919-1939

Interest revived in the rating of site values and Bills were introduced to Parliament, by both local authorities and by private members, providing for some form of land value taxation. These included the Manchester Bill 1921, J. C. (later Lord) Wedgwood’s Bill 1932 and A. MacLaren’s Bill 1937. However the L.C.C. Bill 1938-9 was of more interest and importance than most and its provisions are described below:

Provisions of the LCC Bill 1938-9

(1) A valuation was to be made of the annual site value of every land unit, this being defined as the annual rent which the land comprising the land unit might be expected to realise if demised with vacant possession at the valuation date in the open market by a willing lessor upon a perpetually renewable tenure upon the following assumptions, namely, that at the valuation date:

- (a) there were not upon or in that land unit -
 - (i) any buildings, erections or works except certain roads; and
 - (ii) anything growing except grass, heather, gorse, sedge, or other natural growth;
- (b) the annual rent had been computed without taking into account the value of any tillages manures or any improvements for which any sum would by law or custom be payable to an outgoing tenant of a holding;
- (c) the land unit were free from any encumbrances except such of the following encumbrances as would be binding on a purchaser - easements; rights of common; customary rights; public rights; liability to repair highways by reason of tenure; liability to repair the chancel of any Church; liability in respect of the repair or maintenance of

embankments or sea or river walls; liability to pay any drainage rate under any statute; restrictions upon user which have become operative imposed by or in pursuance of any Act or by any agreement not being a lease.

(2) The incidence of the rate was to be upon the respective owners of the site value (generally by means of deduction from rent), any past or future provision in contracts, having the effect of relieving in whole or in part any person entitled to receipt of rent from any liability, to be void in respect of the site value rate, and the occupier, in normal cases, would pay the rate in the first instance.

(3) The amount of the annual rate on site values, as from April, 1941, was to be two shillings in the £. (10%) and it was to be collected by the rating authority with the general rate, although there would have been a separate demand note for the site rate.

FOLLOWING IS A SUMMARY OF SOURCES WHICH WERE PUBLISHED POST SIMES:

Royal Institute of Public Administration (1956)

The RIPA's report examined possible new sources of local revenue and gave an account of the operation of land value taxation in other countries, stating that where it had been adopted it appeared to be successful. However the report concluded that whilst the argument for land value taxation encourages the development of land and for that reason it is a useful tax, especially in an expanding country with a large area of land, it is of less interest in a country like Great Britain.

Blundell (1993: 18) commented on this finding:

“That Britain has a relatively small area of land makes it more, not less, necessary, to ensure that the land which is available for expansion is not left idle or underdeveloped, whilst making no contribution to the local services which help maintain and raise its value.”

Wilks, H. M. (1964, 1974)

Originally this was a commissioned survey of a town in Kent which in 1963 tested the practicalities and effects of introducing land value taxation as an alternative to the established rating of landed property as combined hereditaments of land and buildings. The survey was conducted by H. M. Wilks, a leading rating surveyor, who adopted the provisions of the L.C.C. Bill as regards definitions of site value. He concluded that the exercise was professionally feasible but inevitably shifted the burden of rates between different types of property.

In 1973 Wilks' re-valued Whitstable with an amended definition of annual site value and reflecting on this second valuation he confirmed:

“Comparability with the orthodox method - the total rateable value is of the same order as the orthodox rateable value list, because of the extra land and so on that one brings in and the extra values that accrue, so that the rate poundage can be of the same order of figure. It is clear and incisive to operate and from the valuer's point of view, the number of problems seem to be far less than those which we have to meet on the orthodox system.

The only problem that I can see in this country in bringing in such a method is the interim period or changeover. It is so bound into the system in this country that the occupier pays the rates. All leases of and transactions in land are based on this premise. Is it worth upsetting all this, is it worth having to review by statute every transaction in land, every lease of land for this other system of taxation? Now that I have done my two reports my answer is an uncompromising “Yes”. It is all worthwhile.”

Royal Institution of Chartered Surveyors (1964)

This working party was set up to consider, inter alia, the changed situation following the demise of the compensation/betterment provisions of the Town and Country Planning Act 1947. However it came to the same conclusion as the Simes Committee in 1952, voiced in the following terms:-

“The majority report of the Erskine Simes Committee (1952) came to the conclusion that site value rating was neither practicable nor desirable. We have endeavoured to look again at the problem, bearing in mind that development charges introduced by the Town and Country Planning Act, 1947 have been abolished, and by taking into account the information made available by the Whitstable Pilot Survey we have come to the same conclusion”.

Ministry of Housing and Local Government (1971)

This Green Paper considered trends in local government expenditure, possible additional sources of revenue, improvements of the rating system, and the future system of control of government grants. Various options were examined but none specifically recommended. As far as land value taxation was concerned Blundell (1993: 19) opined there was little evidence of original thinking, and the misconceptions of the Simes report were repeated without further consideration.

Ministry of Housing and Local Government (1976) (Layfield)

This was a Report from another Government appointed committee whose brief it was to examine the various options for taxation to provide local government revenues. Inter alia, it considered land value taxation as one of these options but rejected it favour of retention of the then-existing rating system, but recommended that domestic dwellings should be assessed on capital values rather than annual values, because there was more evidence of the former than of the latter. It further recommended that agricultural land and buildings should be rated, and that a local income tax should be levied as an additional source of finance.

The Report's conclusions on land value taxation were:

“The proposed development land tax and the Community Land Act effectively remove site value rating from consideration. Apart from these developments, we would not consider a tax on site values to be a suitable or a firm enough base for raising local revenue. Local accountability would not be promoted. The practical difficulties are formidable. At least a decade would be necessary to put site value rating into use, with a long period of transition thereafter before it could become fully operative.”