Land-Value Taxation For Trinidad?

"Site-Value Taxation is capable of being made nationally acceptable at all levels of the community through the use of progressive rates. The exception to this acceptance will be persons owning idle land . . ."

Mr. John M. Copes, F.C.I.V., F.R.E.I., appointed under the United Nations Programme of Technical Assistance, in a Report presented to the Government of Trinidad and Tobago on Valuation, Land Taxation and Rating, has advised them to adopt a system of land-value taxation.

We are indebted to the "Sunday Guardian," Trinidad, (August 18) for its summary of the Report, from which the following extracts are taken.

NOW IS THE HOUR to introduce a land tax policy that curbs speculation, pays for national development and discourages the holding of idle agricultural land, states the report to the Government on Valuation, Land Taxation and Rating by Mr. John Copes, which was released on Friday afternoon.

Such a policy requires a new taxation system, and the voluminous report examines in fine detail various systems of land taxation.

Early in the report, the dimensions of the Government's problem are laid out:

"During the Five-Year Development Programme 1958-1962, the average consideration for property sold advanced by 69 per cent, whereas during the previous five years prices remained static.

"An increasing spiral of real estate prices will hinder development in housing, commerce and industry, by adding to the cost of housing and the price of goods.

"With taxation on real property often at rates of less than 0.1 per cent, and increasing volumes of capital to be spent on development schemes, the inflationary tendencies are likely to continue."

"It is paradoxical," the report complains, "that the Government is forced into the position of having to acquire lands at values which it has been instrumental in creating.

"In that the taxation on land in Trinidad and Tobago is negligible, speculation is encouraged as the owner can exploit the market to the best advantage practically without cost to himself.

"The large increases in values which have accompanied Government expenditure on development schemes remain untaxed, and the beneficiaries of these gains enjoy the benefit of such works without making any additional contribution towards their capital cost of maintenance. On sale, the gain becomes an untaxed gift of cash."

The report expects the Land Use Classification of agricultural land and the zoning of land for agricultural use to define the country's potential in agricultural produce.

"It goes without saying that the owners of potentially favourable agricultural land will be expected to contribute their share to the economy of the country by making fullest use of the resources within their charge.

"It follows that the ultimate tax policy should be directed towards providing incentives for development while at the same time curbing speculation. The tax should discourage (if not penalise) the holding of agricultural land idle."

The report holds out the hope that a proper review of the existing system (the standard twenty-four cents an acre levy) or the adoption of another system will change the incidence of the present taxes, but to cushion the effect on the taxpayers it is suggested that a five-year graduated scale be applied, and in specified instances, where necessary, a moratorium could be given.

"The intensity of the rate," reasons the report, "should be related to the capacity of the land to produce goods and services when developed."

On the other hand, the Report continued, "a tax based on area is an elementary form of rating land. It is most applicable to agricultural land where all the lands being taxed have similar farming characteristics.

"The flat rate is determined by the capacity of the poorest of the farmers, and it follows that all lands above this category are released from a measure of taxation.

"At best this system should be used in Trinidad and Tobago for the poorest rural holdings and then only as an administrative expediency. It should not be applied to urban or suburban lands, nor to medium and large agriculturalists."

There was a bold warning: "This under-taxation of land not only results in a loss of revenue, but contributes to the inflationary trends in land values."

"Whereas rating and land taxation has, to date, had only one objective," says the report, "namely, to provide revenue for local government, it is essential that future policies incorporate national interests.

"The need on the one hand is fiscal, but the non-fiscal application of the tax needs to provide for the climate for development and increased productivity along the lines directed by national and regional town planning."

One fundamental of the basic tax policy, the report suggests, ought to be the levying of super-taxes or levies against betterment to finance development by tapping non-inflationary sources of funds and to curb inflationary trends.

The betterment levies may, it suggests, take the form of a capital gains and betterment tax (a measure not advocated by the report) or of an annual levy of, say, two per cent on valuation. With values tending to appreciate upon development so will the Government's returns increase.

This is the measure preferred in the report as being a means of encouraging development within an area while discouraging speculation there.

"Such a form of tax," the report declares, "is sound from an equity point of view. It requires those persons who directly benefit from the (development) scheme, the value of whose lands increase as a result, to contribute on an annual basis to the cost of the project for a fixed period of years.

"Policy might be directed towards collecting 25 per cent, 50 per cent, or even 100 per cent of the cost depending upon the nature of the project.

"It is inequitable that general revenue should provide the whole of the funds to projects which benefit a limited number of persons, who in turn benefit from increased values arising out of the scheme.

"Particularly is this so as the increase in the value of the benefits is likely to exceed the cost of the development within a reasonable period of years.

"These levies can be applied to drainage, irrigation, electricity, water and sewerage schemes, and also to new roads opening up lands for further development."

The Government thereby derives from a revolving fund, so to speak, the finance to a large extent required.

This measure will tend, too, the report suggests, to curb inflationary trends. The present level of taxation on land is particularly low in relation to advancing land values. Inflationary tendencies are evident.

As land values increase and the cost per unit of house or commercial building advances, so a given volume of savings and capital is soaked up and utilised in a decreasing number of units. Wages and savings do not keep pace with those trends and less mortgage money is available.

"The need is to tax those increasing values at rates which will absorb the surplus of values.

"Further, it may be of benefit to consider a general capital gains tax to operate at a reducing scale over a short period, designed to tax speculation."

The report then advocates that the basic system of rating and taxation be on site values at progressive rates, with the objective of the first valuation roll being to raise the present low revenue to "a very moderate appropriation of past increments in land values now in the possession of the owners (say two per cent of the total of values)."

The tax system advocated has a built-in scoop to obtain further revenue increases, for the report says: "The basic tax system provides for the very moderate taxation of accrued increments in the hands of owners, but policy beyond this first phrase should be directed to appropriating future additional increments at higher rates. It would require particularly high rates of tax to offset inflation."

This basic tax system, the Report concluded, requires the enactment of four laws, a Valuation of Land Act, a Rating Act, a Taxation of Land Act, and a Land Rating and Taxing Adjustment Act "to provide relief in specified instances."

TABLE OF COMPARISON

The Report illustrates the regressiveness of the present *tax per acre* system and then goes on to illustrate the effect of a tax upon *land values,* taking a 0.24 per cent and then 5 per cent tax on capital values as examples.

Tax per acre

Owner	Acres	Capital value per acre	Total capital value	Annual tax (at 24c per acre)	Tax as % of total capital value
		$	$	$	$
A	50	100	5,000	12	0.24
B	50	400	20,000	12	0.06
C	50	10,000	500,000	12	0.0024
D	2,000	1,000	2,000,000	480	0.024
			Total Revenue:	516	

Tax on Land Values

Owner	Acres	Capital value per acre	Total capital value	Annual tax (at .24% of capital value)	Annual tax (at 5% of capital value)
		$	$	$	$
A	50	100	5,000	12	250
B	50	400	20,000	48	1,000
C	50	10,000	500,000	1,200	25,000
D	2,000	1,000	2,000,000	4,800	100,000
			Total Revenue:	6,060	126,250

Total revenue on present tax *per acre* basis: $516

Total revenue on a tax on *land values* basis:

At 0.24 per cent of capital value: $6,060

At 5 per cent of capital value: **$126,250**

This shows that even at the lower rate of tax (0.24 per cent) on a *land value* basis the result is a vastly increased revenue to the Government.

Trick Cyclist Economics

IT IS A VERIFIABLE FACT that each time the Conservative Government have been re-elected, it has triggered off a boom in industrial investment and this has inevitably made necessary measures of restraint. Later on, when the boom has worn off, and the prospect once more arises of the possibility of a Labour Government, some stimulation is necessary to maintain the economic momentum.

—Frederick Erroll, President of the Board of Trade.