Local tax reform

by PETER HUDSON

THE LAST major review of local property taxation and its alternatives was carried out by the Layfield Committee[1] and very little has been heard about the subject since. Recently, however, the government announced that the proposed revaluation of the rating lists programmed for 1982 is to be postponed. Does this administrative act mean that some drastic changes in local government finance could form part of the new government's programme in the next few years? We shall have to wait and see. But whatever the government's views on this emotional and vitally important subject it is perhaps significant that the Rating and Valuation Association has chosen this time to publish a small informative booklet about the rating system.[2] This short treatise in defence of rating contains some interesting facts and opinions.

Contrary to popular belief, an analysis of official figures shows that the relationship between personal disposable income and rates has actually varied very little between 1938/9 and 1975/6. In 1938/9 rates represented 2.71 per cent of disposable income and in 1975/6 had fallen to 2.20 per cent. But during the period 1964 – 1977 income taxes as a multiple of rates increased from 5.3 to 9.5. In 1976 the average domestic rate bill per week was £1.94 while the average weekly expenditure on motor vehicles was £6.40 and on alcoholic drink was £3.11. The transfer of rates to income tax would require an increase in the latter of at least 11p in the pound. Similarly, a transfer of rates to V.A.T. would raise the latter to over 25 per cent. An increasing international comparison shows that in 1975 local property taxes provided 24.5 per cent of local expenditure in England and Wales, 34 per cent in the U.S.A. and 42 per cent in France.

The Rating and Valuation Association argues that a property tax as a form of local revenue is sophisticated, flexible and has a relationship with services enjoyed. It would, however, prefer to see a system of valuation based on capital values rather than hypothetical rents. The Association further claims, as evidenced by foreign experience, that a local property tax ensures the continuance of local democracy and local independence. The alternative taxes on income, sales or per capita are thoroughly criticised.

All this is well and good, but although praising the property tax as presently levied, the booklet fails to point out that the rates involve taxation of two different components with entirely different characteristics – land and buildings. The rating system treats those two components as one. It needs to be stressed that the economic consequences of taxation on the two components is quite different. This is perfectly well understood in many parts of the U.S.A., Canada, Australia, New Zealand and South Africa, where separate valuations are made of land and buildings. The effects of taxes on land and buildings have been brilliantly compared by Prof. Mason Gaffney[3] and Dick Netzer[4] in two widely publicised critiques to name only a pair of authors in what is becoming a rapidly expanding literature.

It is odd that in its consideration of alternatives to the present rating system the Rating and Valuation Association made no mention at all of Site Value Rating even though the Association has itself published important research on this subject.[5] SVR, of course, is a tax on the land element of property and is widely accepted in some countries as being vastly superior to rates on land and buildings. One can only conclude that the Association's interest in property tax reform is strictly limited by considerations of expediency. This is indeed a pity as property taxation must eventually be subject to evolutionary pressures and the pressure in the more advanced economies is away from the tax on buildings and *occupation* of land. Vacant sites, it must be remembered, can be taxed into profitable use and this has recently been advocated by the Civic Trust[6] who have noted that in 1971 there were about 16,000 acres of vacant land in Greater London alone.

Let's hope that in the future the Rating and Valuation Association will take a short step in the direction of advocating radical property tax reform. The Government needs to look in this direction when considering the repeal of the Community Land Act if development objectives are to be realised without sparking off another property value boom which the economy can ill afford.

REFERENCES

1. *Layfield Committee of Inquiry into Local Government Finance.*
2. *Information about the Rating System* – Rating & Valuation Association.
3. *Property taxes and the Frequency of Urban Renewal,* M. Mason Gaffney, National Tax Association, Harrisburg, Pa.
4. *The Economics of the Property Tax,* Dick Netzer, Brookings Institute.
5. *Pilot Survey for Site Value Rating in Whitstable,* Rating and Valuation Association.
6. *Urban Wasteland,* Civic Trust.

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The author is a veteran as a litigant-in-person of the Valuation Courts, Lands Tribunal, Queens Bench Division, Court of Appeal and House of Lords in cases which resulted in a fairer distribution of the local rates among ratepayers in Hackney and Islington rating areas.

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