

METHODS OF VALUATION

Self-assessment v. Expert Assessment

To the Editor, "Land & Liberty."

SIR,—My contention is that it is possible to impose the tax without having a valuation *first*, and that the valuation must follow in order to assess each citizen.

Land & Liberty seems to agree with "Round Table" that "a correct valuation *must first* be carried out." One method "Round Table" suggests is "to compel all owners of land to place a value on their own *land* (*italics are mine*). Yet the Editorial says "this statement fails to distinguish between land and improvements." But the writer did not mention improvements, so why drag them in?

We call the taxation of land values a natural tax, therefore let us copy nature and change something that exists, rather than try to make something new, by making use of existing machinery.

I feel sure we all agree that every piece of land is a potential source of something, and we know that the rent of land in use at present is paying 8s. 6d. in the £ income tax (pre-budget). So let all land be brought into line by following the "Round Table" suggestion and compel owners of all idle and under-used land to declare the value and let it pay 8s. 6d. in the £ on what it *should* yield in terms of rent?

I contend that 8s. 6d. in the £ of annual value of the present idle and under-used land would be very satisfactory start and quite possible by imposing the tax *first*. Then it can be increased gradually on all land values reducing taxes on food and industry as soon as convenient.

Yours truly,

ARTHUR J. MACE.

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In order that any tax should be collected it is necessary that the amount to be paid in respect of each subject matter of taxation should be ascertained. This ascertainment constitutes a valuation or assessment, and is indispensable. There is no meaning in suggesting that a tax can be imposed without a valuation or assessment.

The real point which is at issue is who should make that assessment, and our correspondent's suggestion is that the taxpayer himself should make it. There are numerous precedents for this in respect of other taxes. The importer of dutiable goods supplies an account showing how much they have cost him and how much in addition he has had to pay for freight and insurance in order to bring them into the country. The income taxpayer makes a return showing how much income he has actually received. The brewer states how many barrels of beer he has brewed and what the specific gravity is (that is, how much alcohol the beer contained). The personal representative of a deceased person makes a return for estate duty showing what items the deceased's assets consisted of and what was the value of each.

All these are precedents of self-assessment. It must be observed, however, that the return required is usually a mere statement of a pre-existing fact, and not an independent valuation by the taxpayer. The importer's invoices or bills for the goods, carriage and freight, are pre-existing documents compiled by third parties (who may be assumed not to conspire with the importer to defraud the revenue) and they can be and in many cases must be produced in order to verify his statement. Thus the customs house officers check the importer's valuation before they allow the goods to be removed from the docks.

Similarly in the case of income tax, the taxpayer has to make a return of pre-existing fact. If his income is derived from wages or salary his employer makes a return, and in most cases the tax is deducted from the remuneration before the employee receives it. If his income is derived from stocks and shares, he states

what the details are and in the case of companies whose shares are quoted on the stock exchange the facts are readily verifiable from established sources of information. In any event the company is bound to deduct the tax before paying the dividend, and the taxpayer, if over-charged, has to produce this voucher before securing a refund. The company, moreover, has to produce profit and loss accounts and balance sheets which are usually prepared and audited by accountants. In the case of income derived from real property the taxpayer returns the amount of rent he receives, which is verifiable from the agreement or lease between him and his tenant; but if he occupies the property himself, and no rent passes, his return is based upon a pre-existing assessment which has been made by the officers of inland revenue. In the case of the beer duty the manufacture is subject to constant supervision by officers of excise and the goods cannot be removed from bond until the duty is satisfied. In the case of estate duty, the personal representative has to deliver an inventory upon oath detailing the property and its value. In respect of securities quoted on the stock exchange, the value must be calculated by reference to the quoted prices at the time of death; in respect of non-quoted securities certificates are required from the secretary of the company concerned. In the case of a share in a partnership business the accounts may be called for in order that the revenue officers may check the value. In the case of land the return made by the taxpayer is referred to the district officer of the inland revenue to be checked.

The last case is a genuine case of initial self-assessment which is later followed by an official assessment; and it may be remarked that in a large number of instances the official assessment differs from the taxpayer's, especially where the taxpayer has not gone to the expense of obtaining expert advice.

A valuation for purposes of death duties is, however, a very different thing from a valuation for the purposes of a tax on land values. Death duties in the nature of the case are payable at irregular intervals. If we assume that on the average succession to property occurs once in 25 years, then at most only one twenty-fifth of the land would require to be valued each year, and it is easier for the district valuers to keep check on the returns made by the taxpayer. It is to be remembered also that a great deal of land never becomes directly subject to death duty valuations. If it is held by companies, municipalities or other corporate bodies, there is no death and no death duty.

The case of estate duty is completely different from a tax on land values. For the purpose of a tax on land values, a valuation is required of every plot of land in the country made at one time in order to ensure fairness and uniformity. If every person who had an interest in land was obliged simultaneously to make a return of what he considered the land value of that land to be, then the inland revenue would require first of all to procure all these returns and to verify them within a limited time. It may be observed that there is no difficulty in obtaining returns for estate duty because the personal representative of the deceased cannot obtain probate of his will or letters of administration of his estate, and therefore cannot deal with it or make a good title to it, until the death duty has been paid. The revenue has, therefore, a powerful lever over the taxpayer to compel him to take the initial step of making a

return, which would be quite absent in the case of a tax on land values. A similar state of affairs existed in respect of income tax. Returns of income were not made for months or even years after they were due. The tax officers met this situation by making an assessment (often a quite arbitrary one, because it had to be high enough to compel the taxpayer to dispute it). The difficulty about income tax is now reduced because so much tax is collected at source, and the taxpayer in order to have the excess tax refunded or to prevent too much being collected in the first place is forced to make a return of his income.

It is clear that the revenue cannot be prejudiced by allowing the taxpayer to place what valuation he pleases upon the subject matter of taxation and refraining from checking that valuation. The suggestion may be made that the taxpayer can be terrified into making a correct valuation by the threat that if he values too low, the state will acquire the land at the value he has put upon it. The efficacy of this threat is extremely doubtful, because the state does not want isolated plots of land chosen at random in order to discharge its public functions. The acquisition of the land does not enable the State to obtain the revenue which it should have from the tax on the land; on the contrary the operation results in the State incurring an expenditure which it would not normally have incurred; and the whole thing is at best a very cumbersome and roundabout method of securing a valuation which the district valuer could have made at the cost of a few shillings.

In addition the threat of purchase is inappropriate to a valuation for the purpose of a tax on land values, because the subject matter to be valued is the land assuming that the improvements on it are non-existent, whereas the subject matter which alone could be purchased is the land as it is with all the improvements as they are. It follows, therefore, that if the officers concerned considered the land value estimated by the taxpayer to be erroneous, they would have to ascertain the value of the improvements, add that to the land value, and acquire the land with improvements at the price so found. And here a question of equity arises: Is the taxpayer to have an opportunity of disputing the value placed upon the improvements, before this process of compulsory purchase is carried out? If not, he is placed at the mercy of public officials in a very arbitrary fashion; and if so, all the expedition and simplicity which is claimed for this process disappears. It is because the *Round Table*, in a passage which our correspondent omits, suggested that a correct valuation could be secured by giving the state power to buy at the price returned by the owner, that we said it failed to distinguish between land and improvements.

There is a still further difficulty in many cases, and that is that there is no single person who can be designated as the owner in the full sense. The land may be subject to leases and sub-leases (or in Scotland feu duties and ground annuities). Which of the parties who has an interest in the land is to make the valuation? Still more important: are the others to be bound by it without opportunity of objection and liable to have their interests in the land extinguished by a compulsory purchase?

The whole question is a practical one, viz., what is on the whole the quickest and most economical method of obtaining a reasonably accurate valuation? Practical experience where it has been tried has shown that the process of self-valuation is so inaccurate (not necessarily fraudulently inaccurate, but incompetently inaccurate) that the correction of the returns and the giving to the taxpayer an opportunity to consider the amended valuation consumes more time and labour than the making of an official valuation in the first place. The

result is that the method of self-valuation has fallen into desuetude wherever it has been attempted.

In the latter part of his letter our correspondent suggests that the valuation should be of the annual value. There is much to be said for that on its merits, but it does not solve the question who is to make the valuation. Neither is it correct to assume that the only land which would require to be valued would be idle land. If it is desired to distinguish between the value of the land alone and the value with the buildings or other improvements, then it will be necessary to value not unused land only but all land.

Lastly, it is desirable that a valuation of land value should be public. If the published valuation is arranged topographically so that the values of adjacent plots are together and readily comparable a valuable control will be obtained over the accuracy of the valuation. It would, however, be damaging to the valuation if it were found that identically similar plots, lying side by side in the middle of a long street for example, and having no appreciably different value appeared at very different figures in the valuation register. This is precisely the kind of result that arises from the amateurish efforts of individual plot holders to make a valuation without expert knowledge or advice. Although the valuation of the land itself can be made much more precise and accurate than the valuation of the improvements on the land or than the valuation of chattels or movable things, it is futile to suggest that it does not require skill and knowledge if it is to be well done.

—EDITOR, *Land & Liberty*.

A COMPENSATION CASE

AN INTERESTING case relating to compensation for compulsory acquisition of land was decided by the Court of Appeal on 24th March. It related to the purchase by Sunderland Corporation of land known as Springwell Farm, comprising some 102 acres belonging to a Mr Horn. The Official Arbitrator awarded the vendor the sum of £22,700 as the value of the land, but did not award any sum as compensation for disturbance of the business of farming carried on upon the land. Mr Horn claimed that he should have been given compensation for disturbance in addition to the value of the land for building purposes.

The Master of the Rolls, in his judgment, said:—

"Mr Horn, in farming the land, was putting it to a use which, economically speaking, was not its best use. The result of the compulsory purchase would be to give him a sum equal to the true economic value of the land. His claims for the value of the land as building land and for compensation for the disturbance of his business were inconsistent with one another. He could only realize the building value of the land if willing to abandon his farming business; but he was saying that he was not willing to abandon it, and ought to be treated as one who, but for the compulsory purchase, would have continued to farm the land."

His Lordship went on to indicate that if the value of the land for agricultural purposes plus a proper sum for disturbance of business were to exceed £22,700, then the amount awarded should be increased accordingly. As the arbitrator had not dealt with that aspect of the matter "which, in view of the very high valuation of the land, might be academic," the matter would be remitted to the arbitrator with a direction (1) to ascertain (a) the value of the land as agricultural land with the minerals in it, and (b) damages for disturbance; (2) if the sum of those two items exceeded £22,700, to award an additional sum equal to the excess.

In other words it was decided that the owner could not claim to both eat his cake and still to have it. The conclusion accords with common sense, but the assessment of compensation will never be placed upon a satisfactory basis until we have a valuation of all land which is made the basis of taxation as well as of acquisition where that becomes necessary.