# Sophistry and Site-value Rating

FOLLOWING on the Government's plan to reorganise local government, legislation to give their proposals effect will be introduced for England and Wales this autumn and for Scotland in the autumn of next year.

Since reorganisation cannot be undertaken without reference to its financial implications, a Green Paper, *The Future Shape of Local Government Finance*,* has been produced to "stimulate a wide public debate" on the subject.

The Paper outlines the background to local government finance, refers to the increasing share borne by central government (now sixty per cent), and emphasizes the lack of local government resources to keep pace with the growth of services. The gap between the resources and needs of local authorities can be met in three possible ways, says the Paper:

"either property occupiers must pay more, or the national taxpayer must bear an increasing proportion of local expenditure, or new and buoyant sources of local revenue must be found."

In Appendix 2, *additional* not *alternative* sources of local revenue are considered. This is because, in the words of the Paper:

"the almost universal conclusion . . . has been that a property tax such as rates must remain the principal source of local revenue . . . ."

And so it could under site-value rating since it is only the basis of assessment and incidence of the tax that is altered.

Among additional sources considered are local income tax, site-value rating, sales tax, value-added tax, payroll tax, duties on motor

*HMSO Cmnd 4741, July, 1971

fuel and vehicles, lotteries and a poll tax. None of these sources of local revenue is blessed, in fact all are damned though never with faint praise.

Reform of the present rating system, without changing it in principle, is also mentioned and suggestions cover the whole field of rate rebates, a change from annual value to capital value and extension of the rating of empty properties. No mention is made of the rating of vacant and undeveloped sites which the Rating and Valuation Association recommends

The criticisms of site-value rating as an "additional" source of revenue would also, of course, apply to those made of it as an alternative source of revenue and it is sad to see that no new thoughts have gone into its examination nor has any attempt been made to rectify the errors and patently fallacious arguments which have been repeated *ad nauseam* by opponents of site-value rating who have been too lazy or too prejudiced to do their own research, but have instead cribbed from each other's text books.

If the main objections dealt with in this paper are the best that can be arraigned against site-value rating, then the way is open to a real discussion of the subject, for these arguments can be shown to be without substance.

The first point made in fact concedes one of the main arguments put forward in favour of site-value rating, *i.e.* that land values are created and sustained by the community generally and by the expenditure of public money specifically. But the Paper says:

". . . it may be pointed out that capital gains tax may be paid on the development value of the land, when it is sold, and the Government have recently, when abolishing the Land Commission, made it known that in their view this is the appropriate way for the community to share development value."

This is just not good enough. Site-value rating is not and never was a means of collecting development value since this is but a very small part of increased land values let alone existing land value which is the target of the site-value rate. If, as the Paper appears to concede:

"the economic rent of the site is created not by the owner but by the community,"

then the *economic rent* must be the object of the tax not piecemeal development values.

The Paper then says that the argument that site-value rating would encourage the best use of land and not discourage improvements has "perhaps more force" in relation to underdeveloped countries! Perhaps indeed, but even were this true, which it is not, it does not dispose

of the argument, neither does such meaningless phraseology as:

"in Britain the need is to channel and organise development in the best possible way, rather than simply to encourage it"—as though the one precluded the other!

That the present system discourages improvement of property, has, says the Paper, "some validity" but then it goes on to comment that under a site-value tax, the improvements will sometimes be taxed before they are actually made. Only prejudice could produce such sophistry. To state that potential improvement is taxed by taxing land values, is to make nonsense of the principle.

In short it is argued that *potential* improvements must not be taxed, only the *actual* improvements, which completely begs the question of whether the tax is on land values *or* on improvements.

Foolishly, the Paper argues that the site-value rate:

"would tax not the current income or resources of the taxpayer, but instead his prospective and potential resources" (going contrary to "capacity to pay").

This assumes, quite ludicrously that all sites are vacant sites! Even so, this goes contrary to the argument for rating empty properties to which the Paper gives limited approval:

"rates on empty property . . . to the extent that they act as an encouragement to owners to expedite the sale of vacant property and hence its rating in full, they provide more extra revenue than can be identified."

In short, the authors of the Paper both adopt and reject the same argument as it suits their purpose.

The fact of course is that non-use of a valuable asset is the holder's responsibility and no one else's, and the ability to pay principle is wholly irrelevant.

To make the tax contingent upon an action of the taxed is to negate the principle of taxing land values. This was the rock on which both the development charges of the 1947 Planning Act and the Betterment Levies of the Land Commission Act foundered. These charges became a tax on development not a tax on land values.

The Green Paper recognises that the principle of assessment under site-value rating is on *permissible* development:

"... site-value rating assumes the land to be subject to maximum permitted development" (p. 27).

It glosses over the fact that development would also have to be practicable and realisable and uses this omission to argue that an owner would be penalised if he failed to develop in these circumstances! If planning proposals were changed, say the authors, a man could be paying tax on a land value he could not realise—as indeed he would if the valuation were not adjusted accordingly *as it would be under site-value rating*. This theme is repeated in the next paragraph.

"It would, for instance, be unfair—indeed impracticable—to tax the occupier of a slum dwelling on the possibly high development value of the land on which his dwelling was situated."

Why? If redevelopment were denied or were impracticable he would not be assessed on a "high development value." If the contrary were the case, the landlord would have his choice and he would have every incentive to pull down the slum and put up a house to match the value of the site or sell the site to someone who would.

The Green Paper could not of course ignore the Whitstable Pilot Survey conducted by the independent Rating and Valuation Association, but it does the next best thing—misrepresent it. Its statement on Whitstable is entirely at variance with the conclusions of the valuer who made the valuation. Says the Green Paper:

"... site-value rating could price amenities out of existence. Under the rules adopted for that study, rates on the local golf course, for example, would have increased seventy-fold."

Omitted is the crucial point that the owners *had already applied for planning permission to develop the land*, which if granted would have priced the golf course out of existence anyway! Since the valuation of the golf course was based on the developable value it is not surprising that this value was seventy times its existing use value. As it turned out, permission to develop was refused and a site-value rate, had it operated in Whitstable, would have, in the words of the Green Paper itself, been levied only on "maximum permitted development"—in other words on the then existing use.

Another inconsistency is the claim that the problems of valuation and litigation:

"would be greater and more extensive than with the present basis of a free market rental because of the scarcity of evidence of site values ..."

This in spite of the fact that this "scarcity of evidence" argument applies equally to the present basis but here they suggest it might be changed from rental values to capital values! This in fact was a suggestion made in the Whitstable Report itself in connection with site values, and although we would not necessarily support the idea, it does answer the objection.

They must have scraped the bottom of the barrel for this one:

"Owners of land are less easily identified than occupiers, and collection and recovery would be more difficult."

But it displays unforgivable ignorance of the long-established case for site-value rating which recommends that the charge be payable by, but also deductible by, the easily identified occupier as was the case with the old Schedule A tax.

This section concludes with the thoroughly discredited notion that although site-value rating has worked well for very many years in other countries, the circumstances are "dissimilar" when, in fact, the *relevant* circumstances are identical.

One final twist of misrepresentation is contained in the statement that:

"... the Erskine Simes Committee recognised site-value rating is inconsistent with the system of planning control existing in this country since 1947, under which planning permission for development can be refused without payment of compensation and, in consequence, the market value of land depends largely on the precise details of the planning permission which may have been granted."

It is true that the Simes Committee considered that the 1947 Act militated against the application of site-value rating, but this was because of the development charges imposed under that Act and since repealed, for the Simes report says:

"We consider that the impact of the Town and Country Planning Act 1947 has altered the position by enforcing the claims of the community to the fruits of the development of land as far as they can be foreseen."

But this is quite different from the statement made in the Green Paper that the alleged inconsistency was for another reason, namely that:

"the market value of land depends very largely on the precise details of the planning permission which may have been granted."

Indeed the Simes Committee recognised that site-value rating could be levied only on the value left with the owner which is a principle of site-value rating and therefore not inconsistent with variations in land value due to the withholding or granting of planning permission.

The United Committee supports the Rating and Valuation Association's call for a further study of the potentialities of site-value rating by the Government and supports their suggestion for a further and larger scale study by the Government on the lines of the Whitstable experiment.

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## PHILIPP KNAB

We are sorry to report the death on August 7 of Mr. Philipp Knab of Vienna. He was 83. Mr. Knab was a most active member of the Movement and was a vice-president of the International Union for Land-Value Taxation and Free Trade. We express to his family our deepest sympathy.

As the news reached us too late to allow a longer notice here, a tribute to Mr. Knab will be published in our next issue.