

# LAND VALUE RATING IN NEW ZEALAND

## Official Message to British M.P.s.

IN OCTOBER, 1942, a letter was addressed by a representative group of Labour Members of the New Zealand Parliament to the Land Values Group of the Labour Party in the British House of Commons, the letter being signed by J. G. Barclay, Minister of Agriculture; Robert McKeen, Chairman of Committees of the House of Representatives; R. Semple, Minister of Transportation; and Charles W. Boswell, H. E. Combes, Edward Cullen, F. N. Frost, L. E. Lowry, A. S. Richards, Ben Roberts and James Thorn.

In the course of their letter the signatories wrote :—

"We have followed with interest the efforts of your group to obtain legislation which would enable municipalities throughout the United Kingdom to change from the annual to the unimproved system of rating. We are aware of the increased importance that is being attached to this reform because of the destruction to property caused by the savage onslaughts on your heroic people, since the outbreak of the war, by our common foe, and the need that will exist after peace has been declared for the reconstruction of your towns and cities. We are in receipt of a request from the Trades and Labour Congress of Canada, and the Canadian Congress of Labour, for a statement of our views upon unimproved rating. We take this opportunity, therefore, to state. . . .

"In 1876, legislation was enacted in New Zealand, which made the annual system of rating compulsory on the part of all municipalities. In 1882, because of dissatisfaction with this

"in explanation, the term "annual value" as used in New Zealand is that of the land and buildings taken together, the "capital value" is the selling or market value of the land and buildings taken together, and the "unimproved value" is the value of the land itself disregarding the value of the buildings—that is, the "site value" or the "land value" as it is called in Great Britain.

system of rating, the government of the day passed legislation giving local bodies power to adopt the capital system of rating. In 1896, due to widespread criticism of these two forms of rating, the Liberal-Labour Government gave municipalities the right to adopt, by popular vote, the unimproved system of rating.

"For forty-six years, New Zealand has had these three forms of rating in use throughout the Dominion. That rating on unimproved values by local bodies has proved its advantages is shown by the fact that it has grown steadily in popular favour. To-day a greater number of municipalities, and a higher percentage of the total population, are under this form of rating than under the other two systems combined. The standing of the three rating systems in 1938-39, according to a return published in 1940, was as shown in the accompanying table.

### LOCAL TAXATION IN NEW ZEALAND

	UNIMPROVED VALUE	CAPITAL VALUE	ANNUAL VALUE
Counties	58	66	—
Boroughs	81	21	26
Town Districts	29	24	5
Total	168	111	31
Per cent.	54.20	35.80	10.00

"Over 67 per cent. of the population of New Zealand, located in the urban centres, in 1938-39, resided in boroughs that were under the unimproved system of rating.

"Because the unimproved system of rating has clearly shown its advantages over the annual and capital systems of rating, members of our group, speaking in the House of Representatives, have recently advocated that it should be made mandatory throughout New Zealand.

"A survey of the comparative merits of these three systems of rating, that has been completed recently in New

Zealand, with the co-operation of our Government, in the interests of the International Research Committee on Real Estate Taxation, by H. Bronson Cowan, an American economist, has revealed the many advantages of rating on unimproved values.

"In conclusion, we believe that we cannot express our views better, concerning the weakness of the annual and capital systems of rating than by stating our full agreement, based on New Zealand's forty-six years of experience, with the following statement contained in a report on this subject, issued in 1936, by the London County Council:—

"The economic effects of the present system are prejudicial to the community generally. It discourages the improvement of land, as the burden of rates is proportional to the use made of land; the supply of houses and other buildings is

diminished and consequently the rents payable for them are increased. The exemption of vacant land encourages the withdrawing of valuable land from development until a higher price can be obtained and thus tends to raise land values generally above the normal level determined by their advantage of situation."

"The chief reason for the increase in the popularity of the system of rating on the unimproved values is that it has been found from experience that none of the foregoing disadvantages attach to it. Instead, it discourages the withholding of land from use, encourages the erection of more and better buildings, ensures the payment of their full share of the rates by these interests owning the greatest percentage of land values, and appropriates for public use a higher percentage of community-created land values."

## Statement by Hon. Walter Nash

THE HON. WALTER NASH, formerly Finance Minister of New Zealand and now the Minister of that country in the United States, addressed a joint meeting of the American Institute of Planners and the Citizens' Housing Council of New York on 23rd January in New York. This address under the title "New Zealand's Experience with Land-Value Taxation" has since been published by the Citizens' Housing Council of New York (470 Fifth Avenue, price 20 cents, or for ten or more copies, 10 cents each).

Mr. Nash gave an outline of the legislation relating to the taxation of land values and the rating of land values (known in New Zealand as rating on unimproved values). "My central thesis," he said, "will be that payment to any one—or, to use a wider term, benefits received by any one—should be based on services rendered. This principle, it is true, can have a very far-reaching application. But the system of rating on the unimproved value of land is at least one practicable and helpful way in which it can be carried out."

Referring to preparation for post-war reconstruction he said: "In planning for the future the problem of housing must be closely related to the problems of industry on the one hand and to the requirements of home life on the other. The provision of adequate housing can be seriously handicapped and retarded if abnormal prices have to be paid for the land that is required. A sound and scientifically based system of taxation can help a great deal by correcting such a situation. I believe that the kind of procedure we have adopted in New Zealand, although it is far from perfect, has nevertheless tended to discourage excessive inflation of land values generally and building sites in particular."

Returning to the question of benefits received, Mr. Nash said: "With all the definiteness that might be required, I affirm that benefits received should be based on services rendered, and the payment should be made to that person or body which renders the service. Values should belong to those who create them. Expenditure of taxes collected from the community should be reflected in services for or benefits to

the whole community. This objective, I suggest, can best be achieved through a system of rating on the unimproved value of land. In the light of our New Zealand experience, I am convinced that the taxation of land values in accordance with this principle secures the best results from the point of view of the community, while, at the same time, ensuring as near justice as any known system could to the individual landowner. Because, from the point of view of both community and individual, it means that the tax liability which land bears is in direct relationship to the value due to its site—its access to community facilities, its productivity, including all values other than those created by the owner or occupier of the land."

After a survey of methods of taxation in New Zealand in which he pointed out that local authorities had an option as to which system of rating they would employ, Mr. Nash said: "The unim-

proved value method of rating has been found on experience to be the most equitable. In the case of rural lands it has the advantage of lessening somewhat the burden on those properties that are well cared for and into which the owner has sunk considerable capital in the form of improvements designed to increase the property's productivity. At the same time it tends to place a somewhat heavier burden on other properties which are left in an undeveloped state. It would also bear less heavily on the small farmer as against the large estate owner. In the case of urban property this system of rating similarly operates to the advantage of the small suburban householder as against the owner of valuable city estate. It likewise puts a premium on making the most effective possible use of land, since with increasing rate burdens it will not pay to keep land idle with a view to reaping the benefit of community-created value."

## Where Land Value Rating Operates

### Denmark

Valuation of the whole country made and revised every five years, showing separately the capital value of land apart from buildings and improvements. Under the Act of 1922, a small and uniform national tax is levied annually on the assessed value of all land, urban and rural. Under the Act of 1926, the local taxation on landed property is now levied at a higher rate on land value than on buildings and improvements. In the country districts, adding parish and county taxation together, the land value rate averages 4d. in the £ of capital value (equivalent to 6s. 8d. in the £ of annual value); the result is to give corresponding relief to improvements and to local income tax payers. In the towns, the local land value rates may go up to 1½d. in the £ of capital land value, which is the rate now in force in Copenhagen.

### New Zealand

All land value is assessed in town and country alike for the purposes of the

Dominion land tax. The levy of local taxation on land value depends on the decision of the ratepayers themselves. The Act of 1896 permitted the transfer of most of the rates to land value. By the Act of 1911 this power was extended to all local rates. Wellington, the capital city, derives its whole rate-revenue from land value rating, buildings and improvements being entirely exempt from local taxation. One hundred and sixty-seven other boroughs, counties, and independent town districts have also carried this system fully into operation for local purposes, or levy the main part of their rates on land values.

### New South Wales

The Acts of 1905 and 1906 required all municipalities and shires to levy their general rates on the value of land apart from buildings and improvements—at least 1d. in the £ of capital land value in the municipalities and at least 2d. in the shires. By those Acts, local councils were given the option to levy the rest of their rates on land value and speedily did so, with the result that over the

whole State, with very few exceptions, local taxation raised by municipal and shire councils is on land value only. The city of Sydney under a separate law began to apply the system in 1908 and since 1916 has levied all city rates on land values. In New South Wales, the only local taxation still levied under the old system is that raised by the independent Water and Sewage Boards serving the districts round Sydney and Newcastle.

#### Queensland

Since 1902 all local authorities, whether urban or rural, have been obliged to rate land value only and in the assessments buildings and improvements are entirely ignored. This system of obtaining the local revenues applies also to the rates for water and sewage in the metropolitan area.

#### South Africa

All assessments are made so as to show separately the capital value of land. In the Transvaal, municipalities and village councils are required to levy a rate of at least 1d. in the £ on land value, and no tax may be put on improvements that is not equalled by an additional land value rate, which

may be further increased for the further relief of improvements. Many local authorities levy on land value alone, including Johannesburg, the largest city. Other places levy only a nominal or fractional rate on improvements. In the Orange Free State seven towns have transferred a large part of their rates to land values. In Natal, Durban and three other towns, rate improvements at only half the rate levied on land values. In the Cape Province, East London levies its rates so that the rate on improvements is only one-sixth of that on land values.

#### Canada

In the Western Provinces (British Columbia, Alberta, Saskatchewan and Manitoba) improvements are in all cases rated at a lower rate than land values and in some cases are completely exempted.

#### Pennsylvania

Pittsburgh and Scranton under special law relating to those two cities have increased the city rate on land values and diminished the rate on improvements so that now the rate on land values is double that on improvements.

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