

ROYAL COMMISSION
ON
LOCAL AUTHORITY FINANCE

**EVIDENCE
OF
THE NEW ZEALAND LEAGUE
FOR THE TAXATION
OF LAND VALUES
(INC.)**

PRESENTED . . .

BY

ROLLAND O'REGAN, F.R.C.S.

10665

The Public Revenue Education Council is happy to reproduce for the use of students of economic science, government finance and policy, and public officials —

“EVIDENCES of The New Zealand League for the Taxation of Land Values (Inc)
presented by Rolland O'Regan, F.R.C.S. to the
ROYAL COMMISSION on Local Authority Taxation.”

The Public Revenue Education Council exists because certain vital facts and principles of the Science of Economics, now largely ignored, reveal how we can use a source of public revenue which will make it easier, and not harder — as is the case now — for people to earn a living and provide for their own future.

Economic Science demonstrates there are two Primary Factors of Production — Land and Labor; and one Secondary Factor, Capital. It follows that the product divides into three shares: RENT-of-land, Wages and Interest. Since all Capital is the result of Labor — of making, saving, and of using savings to produce more wealth for income or exchange; and, since a demand for Labor is also a demand for Capital (tools, raw materials, housing, etc.), it is logical to consider Wages and Interest, together, as one single share in distribution; with RENT-of-land as the other. Consequently Economic Science tells us, what most economists and tax-law-makers seem not to have seen at all, that these two avenues of distribution: REWARDS of Human Effort and RENT-of-land, are also the sources of Public Revenue. Taxes are clearly not sources; they are like pumps. And to use man-made tax laws instead of basic sources as a basis of study of public revenue in our colleges and universities assures continued miserable confusion of people and destructive taxation.

The existence of these basic sources simplifies the citizen's tax problem. The one basic public revenue question becomes: Which of these two sources, Rewards of Human Effort or RENT-of-land, should we use, or use first, to provide income for government. The answer should, of course, depend entirely on which source will make it easier, and not harder, for people to earn a living. Today the special tax-interests of a few groups who have a dollar and cents interest in resisting justice-adjusting changes dominate only because tax-education fails to reveal the facts.

The Economic Science basis for making an easier and better living, and for security of our people, lies in achieving lower, and not higher, priced land, products and services. All economists who base their thinking on economic science factors and principles know that the more we collect the RENT-of-land for public use by an ad-valorem land tax, the lower the price of land; and they also know we can enjoy lower priced products and services simply by untaxing them; and that we increase consumer purchasing power by untaxing Wages and Interest. Thinking people must, in view of this basic Economic Science simplicity, wonder why our people remain so utterly tax-confused in face of the amount of tax-raised and private money spent for economic and “social studies” education.

Educators, and all government, business and labor leaders, will find this New Zealand Report of challenging importance. In New Zealand only property owners can vote to change from an improvement and land based tax, to exclusive land value taxation. A majority of local New Zealand communities have elected to use land value taxation, and each year, as the Report shows, their numbers increase. Tax figures available to home owners, as provided by law, show that from 80 to 90 per cent of home owners save when the land value based tax system is used.

The Public Revenue Education Council is a non-profit and non-political Missouri Corporation, formed January 31, 1952. Contributions to its support are deductible. The Council is devoted to presenting generally ignored, but most vital facts of Economic Science that relate to public revenue and, for that matter, to private revenue as well. You are invited to write for further information and literature.

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PART I
S U M M A R Y

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VALUE OF LAND - REASONS :

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A. ONE SYSTEM HAS ALWAYS BEEN REGARDED AS DESIRABLE IN THE INTERESTS OF GOOD LOCAL BODY ADMINISTRATION.

To support this view we will consider briefly the historical background of the various systems. ANNUAL VALUE RATING has a very long history going back to the Poor Relief Act of Queen Elizabeth in 1601 when local government in its modern form emerged in England after the industrial revolution, and the universal levying of rates became necessary. This idea of charging the cost of local government onto the annual rental value of property was one of the "hidden cargoes" of social habits and ideas which were brought to New Zealand in the early immigrant ships.

Under the PROVINCIAL SYSTEM OF GOVERNMENT (1853 - 1876) the Annual Rental Value system was the principal system of levying local rates, although there were occasional exceptions. It was early recognized that this system of taxation bore especially heavily on the man who improved his property and in proportion as he made improvements, whereas the charges on totally unimproved land and land held only for the purposes of speculation were minimal. The provinces made various modifications of the system to try to avoid this inherent difficulty in this system of taxation. The NELSON province struck rates on the Capital Value. Totally unimproved land had no rental value but if often had quite a substantial selling value and rating on the Capital Value therefore would extract a greater rate from the totally unused land. In some parts of OTAGO this same object was sought by striking rates on an acreage basis. This certainly hit at the speculator and the investing land companies but of course it was very unfair to the man who held a large acreage of very poor land as against his neighbour who held a small acreage of very rich land. The TARANAKI province hit on the right solution. They struck their rates on land value alone thereby exempting all improvements from taxation and striking heavily at the speculator and the investor. These, however, were the exception. The general rule in provincial days was the use of the Annual Rental Value system.

WHEN THE PROVINCES WERE ABOLISHED in 1876 and the present system of local government came into being Sir Julius Vogel introduced the Rating Act of 1876 which provided for universal Annual Value Rating. The object sought was to have one universal system of rating and every local body was required to appoint a valuer who was to prepare a valuation roll by the 15th. January of every year. One month was allowed for objections. This valuation roll was also the Rate Roll for the district and the Electoral Roll for elections because there was a property qualification for voting.

This was all very neat and tidy but it contained the one cardinal defect, the improving settler paid more and more rates as the annual value of his property was increased by his labours and the land company and the speculator and the absentee paid less and less. Vogel recognized this defect, but he declared:- "The Government is in favour of uniform Annual Value rating. I do not think it would be wise to go off our beaten course to penalize the absentee. If this is desirable it should be done by a special measure."

This was the position until the RATING ACT of 1882 was introduced by Major Harry Atkinson. The purpose of this act was to put all rates on the Capital Value. There was a good deal of opposition from the boroughs and finally it was decided that those boroughs that wished to do so could be exempted from the operation of the act and could retain the Annual Value system. In subsequent years the act was amended to enable local authorities by resolution of the council to have either the Capital Value or Annual Value systems at will. The reasons for the Rating Act of 1882 were:

- (i) It promised to give uniform valuations. Under the old act each Road Board did its own valuation. The valuations were very uneven and very inexpertly made.

- (ii) The pattern of land holding in New Zealand was that of owner-occupier and the relation of landlord and tenant at least for rural land was exceptional. The concept of Capital Value rating therefore seemed more appropriate in New Zealand.
- (iii) The act brought local taxation into line with the national property tax which was assessed on the capital value.
- (iv) Finally and most important of all many properties especially unbroken and unimproved land had no annual value but had a considerable selling value and these were in the main held by land companies and absentee speculators of various kinds. They were paying less rates than they would under the Capital Value system. This resulted in higher rates to bona fide settlers and a considerable loss of revenue.

Under the act the valuation of property was taken away from local authorities and became a function of the Property Tax Assessors. The Government was confident that the advantages this new act offered of even, expert, cheap, regular valuations and the other advantages which have been mentioned would be so attractive to the local authorities that all would in a short time adopt the Capital Value system. This confidence was not justified. The Capital Value system became general among the counties but at the turn of the century nearly all the towns and boroughs still rated under the Annual Value system. It will be noted that whatever advantages the Capital Value system was supposed to have it still contained the one cardinal weakness of the older system. THE MORE A MAN IMPROVED HIS PROPERTY AND SO INCREASED ITS CAPITAL VALUE THE MORE RATES HE PAID.

The Liberal Government of John Ballance recognized that the only escape from this inherent defect lay in the total exemptions of improvements. The legislative moves to this end were slow, cautious and tentative and the opposition tenacious. In 1893 a Rating Bill was introduced in which was included a clause enabling a local authority by resolution to adopt rating on the Unimproved Value. The Legislative Council struck the clause out and the amendment was accepted by the Seddon Government. In 1894 the Rating on Unimproved Value Bill was introduced as a policy measure. It was passed by the House and rejected by the Legislative Council. The same process was repeated in 1895 but in 1896 the Council withdrew its opposition and the bill became law.

The RATING ON THE UNIMPROVED VALUE ACT 1896 was a partial and cautious experiment. The Act provided that on the petition of a stated proportion of the ratepayers a poll should be held to decide whether rating on the Unimproved Value should be adopted and if the poll were successful henceforward rates would be struck on the land value only. In other words it gave ratepayers a local option as to whether or not they should adopt the new system or rating. There were, however, limitations. The poll was invalid unless one third of the ratepayers voted and under Section 20 the new system would not apply to all rates but only to the general rates. Other rates such as sewage, hospital and charitable aid rates would continue to be struck under the old system.

Palmerston North was the first borough in New Zealand to adopt this system. In spite of the limitations of the Act it proved very popular. The opposition to it, however, was extremely strong.

In 1898 Mr. Seddon introduced a bill which aimed at extending the act to cover all rates once a poll had been carried; to enable it to be carried by an absolute majority of those voting and abolishing plural voting on rating polls. The Bill was withdrawn. Again in 1901 an amending bill was introduced which aimed at making the Unimproved Value system universal. It passed the second reading but was not persisted with because of opposition in the Government's own ranks. There was no substantial change until the Rating Amendment Act of 1912 was passed by the Ward Government.

Under this Act a bare majority of those voting was sufficient to carry a poll and if a poll was successful the new system applied to all rates. Those areas, however, which had adopted the new system prior to the passing of the Act could not extend the system to all rates unless they held a further poll. Since that time there have been minor modifications only.

This historical resume explains why there are in effect four different rating systems in New Zealand, viz:-

1. ON ANNUAL RENTAL VALUE .. SINCE 1876;
2. ON CAPITAL VALUE .. SINCE 1882;
3. ON PARTIAL UNIMPROVED VALUE SINCE 1896;
4. FULL UNIMPROVED VALUE .. SINCE 1912.

B. THE SECOND REASON WHY WE SUGGEST THERE SHOULD BE ONE RATING SYSTEM IS THAT IT WOULD BRING SIMPLICITY OUT OF COMPLEXITY AND SOME DEGREE OF ORDER OUT OF CHAOS.

It will be noted that areas which adopted rating on the Unimproved Value before 1912 must have at least two systems of rating and usually three because the Municipal Corporation Act enjoins that Water Rates must be on the Annual Value. This diversity of rating systems, not only in different areas but within single areas, is a source of great confusion to ratepayers and councillors alike. It is difficult indeed (unless one were an expert trained in the subject) to decide what is the legally correct basis for striking a particular rate. Not the least advantage of having one single rating system for the entire country is the simplification and clarification of this confused scene which would result. The five local authorities shown in the accompanying table all adopted rating on the Unimproved Value between 1896 and 1911 and consequentially all should rate partially on the Unimproved Value. None of these local authorities has ever taken a poll to extend the system to all rates. The examples shown are taken almost at random.

		Gen- eral	Spe- cial	Water	Hosp- ital	Light- ing	Library
WOODVILLE	(1898)	U.V.	U.V.	U.V.	U.V.	U.V.	U.V.
HAMILTON	(1901)	U.V.	U.V.	A.V.	U.V.	U.V.	
PETONE	(1905)	U.V.	U.V.	A.V.	C.V.	U.V.	
INVERCARGILL	(1901)	U.V.	U.V.	A.V.	A.V.	A.V.	A.V.
MASTERTON	(1901)	U.V.	U.V.	A.V.	A.V.	A.V.	U.V.

Woodville has simply proceeded to raise all rates on the Unimproved Value by striking one large consolidated rate and including all special rates in the same. This technique has been very widely adopted - in fact only six "extension" polls have ever been held and of these five were successful. Hamilton has done the same thing but still levies the Water Rate in accordance with the provision of the Municipal Corporation Act on the Annual Value. In so doing it would appear that Hamilton is legally correct and Woodville is not. Petone strikes all rates on the Unimproved Value except the Water Rate, which is on the Annual Value, and it used to strike the Hospital Rate on the Capital Value. Masterton prior to 1901 rated on the Annual Value and since that date has levied the legal minimum of rates on the Unimproved Value. Invercargill, whose position is precisely the same as Masterton, levies all rates legally possible on the Annual Value and in addition a Library Rate on the Annual Value, which should be struck on the Unimproved Value as in Masterton. However, it is difficult to be dogmatic on such points. That such a complicated set-up should result in anomalies and illegalities is inevitable. The point, however, need not be laboured. If the Commission so wished, it could be elaborated verbally.

A clear understanding of the purposes, methods and degree of taxation is absolutely necessary if local government is to be conducted on a democratic basis. For this reason one clear, simple and understandable system is necessary.

C. ONE SYSTEM OF RATING WOULD FACILITATE OTHER REFORMS, VIZ. AMAIGAMATIONS.

Amalgamations of local bodies into larger and stronger bodies is in many cases obviously desirable. The Hutt Valley is one natural unit containing four territorial local bodies. Christchurch and Riccarton, Dunedin and St. Kilda, and the four North Shore boroughs in Auckland are examples. Many factors militate against such desirable and necessary unions. The vested interests of councillors and staff, local pride and jealousies, a differing rate incidence, differing loan liabilities and different rating systems all play their part. That rating systems make some contribution to this problem of fragmentation appears to be attested by experience. The rule seems to be that like rating systems tend to amalgamate with like, and that at least one factor hindering necessary amalgamations is the difference in rating systems. The following tables show the amalgamations which have taken place in the four main centres.

WELLINGTON

Amalgamating Local Body	Date of Amalgamation	Rating System of Amalgamating Local Body
Wellington City	-	
Melrose Borough	1903	Partial Unimproved
Miramar Borough	1921	"
Karori Borough	1920	"
Onslow Borough	1919	"
Johnsonville	1953	Unimproved

N.B. There was an extension poll in Wellington in 1927 and since that year all rates have been on the Unimproved Value.

DUNEDIN

Amalgamating Local Body	Date of Amalgamation	Rating System of Amalgamating Local Body
Caversham Borough	1904	Annual
S. Dunedin Borough	1905	"
N.E. Valley Borough	1910	"
Roslyn Borough	1912	"
Maori Hill Borough	1916	Unimproved
Mornington Borough	1916	Annual
The Bay Town Board	1916	Capital

CHRISTCHURCH

Amalgamating Local Body	Date of Amalgamation	Rating System of Amalgamating Local Body
Linwood Borough	1903	Partial Unimproved
Spreydon Borough	1921	"
Sydenham Borough	1903	"
Woolston Borough	1921	"
New Brighton Borough	1941	"
St. Albans Borough	1903	"
Sumner Borough	1945	"

AUCKLAND

Amalgamating Local Body	Date of Amalgamation	Rating System of Amalgamating Local Body
Avondale Borough	1927	Capital Value
Parnell Borough	1931	Annual Value
Arch Hill Rd. Dist.	1913	"
Grey Lynn Borough	1914	Unimproved Value
Remuera Rd. Dist.	1915	Capital Value
Eden Rd. Dist.	1915	"
Epsom Rd. Dist.	1917	"
Pt. Chevalier Rd. Dist.	1921	"
Avondale Rd. Dist.	1927	"
Tamaki Rd. District	1928	"
Orakei Rd. District	1928	"

The table for Dunedin shows that all but one of the amalgamating boroughs had essentially the same rating system as Dunedin. Dunedin has not yet absorbed the borough of St. Kilda, which rates on the Unimproved Value, and West Harbour, which rates on Partial Unimproved Value, but since Dunedin adopted rating on the Unimproved Value in 1953 at least one obstacle to these necessary amalgamations has been removed. Christchurch illustrates the same point, every one of the boroughs which have amalgamated with Christchurch City has had the same rating system, viz. Partial Unimproved Value. The borough of Riccarton, which rates fully on the Unimproved Value, has repeatedly by poll of ratepayers refused to join Christchurch, and we think probably one of the reasons which militates against this move is that the average householder fears the increase in his rates which partial abandonment of the Unimproved Value would bring about. In Auckland, as the table shows, the experience has been much the same. It is submitted that these tables justify the statement that experience in the main centres of New Zealand has been that a uniform rating system facilitates local body amalgamations and, conversely, rating systems radically different in principle tend to keep local bodies apart.

In passing, one might comment on the curious fact that areas rating on Unimproved Value have shown a much greater tendency to amalgamate than others.

It has been said that the hallmark of a true reform is that it makes other reforms easier: by this test introducing one single system of rating is a true reform.

3. SO FAR WE HAVE SUBMITTED THAT THERE SHOULD BE ONE RATING SYSTEM FOR THE WHOLE COUNTRY. WE WOULD NOW LIKE TO SUBMIT THAT THE ONE SYSTEM SHOULD BE THE SYSTEM OF RATING ON THE UNIMPROVED VALUE.

We advance the following reasons:-

- (A) Rating on the Unimproved Value is so superior in its social and economic effects to rating on the Annual Value or Capital Value that it should be preferred above all others.

This claim is so important that it will be developed in a separate portion of the evidence under the heading PART II.

- (B) Rating on the Unimproved Value has spread so rapidly in the last fifty years that at its present rate of expansion it will be the sole rating system in a foreseeable period of time.

This is a remarkable fact when one considers that this system can be adopted in any local body only by the vote of the ratepayers. If the law in regard to rating remains as it is, in time there will be only one rating system, namely, rating on the Unimproved Value. This desirable result, however, will come slowly with much effort, many reverses and the waste of much social energy. If rating on the Unimproved Value were on trial and in the stage of experiment this might be justified, but it is long past that stage. The obstacles to its adoption in any locality are formidable. To collect the necessary signatures of 15% of ratepayers for a poll and to persuade a majority of voters to support the proposal is in a small area comparatively easy, but in a large city like Auckland or Dunedin or a large rural area, much time, money, travelling and labour is necessary - and this is merely a part time effort of ordinary ratepayers.

Opposed to the change almost invariably are the wealthiest and the most socially influential section of the community. In the counties the anachronistic system of plural voting is a further obstacle. Rating on the Unimproved Value has been proven to be a social good. It should be made mandatory. In spite of the difficulties enumerated the system has spread and is still spreading rapidly.

Here is a list of local bodies which have adopted rating on the Unimproved Value since 1945.

1. Levin Borough	1944	28. Waihi Borough	1953
2. Matamita Borough	"	29. Tirau County Township	"
3. Hutt County	"	30. Kaiapoi Borough	"
4. Opunake Borough	"	31. Taieri County	"
5. Makara County	"	32. Otautau Town District	"
6. Rotorua Borough	1945	33. Egmont County	"
7. Manurewa Borough	1946	34. Nightcaps Town Dist.	1954
8. Alexandra Borough	"	35. Waitemata County	"
9. Patea Borough	"	36. Ashburton Borough	"
10. Cromwell Borough	"	37. Orapui Road Board	"
11. Howick Town District	"	38. East Coast Bays Bor.	"
12. Leamington Town Dist.	1947	39. Mangere Bridge County	"
13. Camaru Borough	"	Township	"
14. Nelson City	"	40. Buckland & Eastern	"
15. Greytown Borough	1948	Beaches	"
16. Papakura Borough	1950	41. Hiwitea County	1955
17. Temuka Borough	"	42. Waitarere County Tn.	"
18. Akaroa Borough	"	43. Pukekohe Borough	"
19. Rangitiki County	"	44. Eyre County	1956
20. Tuakau Town District	1951	45. Waiaapu County	"
21. Eltham Borough	"	46. Vincent County	"
22. Te Aroha Borough	"	47. Franklin County	"
23. Shannon Borough	1952	48. Kaitangata Borough	"
24. Clutha County	"	49. Wyndham Town Dist.	"
25. Waikanae County Town-		50. Fairlie County T'ship	"
Ship	1953	51. Kaikoura County T'ship	"
26. Dunedin City	"	52. Beachlands C'ty Town	"
27. Coromandel County	"	53. Waihem County	1957

In these thirteen years there have been fifty-three successful rating polls as follows:

Cities	2
Boroughs	22
Counties	14
Towns	14
Road Boards	1
	<u>53</u>

This is an average of over four successful polls per annum. At this rate it will take a further twenty-two years before the last trace of Annual Value and Capital Value rating has disappeared. What has been accomplished and what yet remains to be done is seen in the following statement on the present rating position.

THE PRESENT RATING POSITION

It is difficult to present statistics of rating distribution because of the rapidly changing status of some areas and because of amalgamations. These latter will be ignored in the following table as they have, so far as counties and boroughs are concerned, affected only areas which rate on the Unimproved Value.

	Unimproved Value	Capital Value	Annual Value	Fees & Charges	Total
Counties	3,638,991	2,485,394	11,508	31,177	6,167,070
Boroughs	7,375,507	878,708	2,922,189	1,304,848	12,481,252
Town Dis- tricts	28,934	22,708	13,026	13,183	77,831
Road Dis- tricts	20,824	2,878			23,702
Totals	11,064,256	3,389,688	2,946.723 ^A	1,349,208 ^B	18,749,855

A. Made up almost entirely of revenue of Auckland and Lower Hutt City.

B. Mainly from sale of Water, night-soil and refuse collection.

These figures are the latest available but they do not take into account the revenue of those areas which have adopted rating on the Unimproved Value since March 1955, viz.:— 6 counties, 2 boroughs and 4 county townships. When figures are available to include these also it will be found that the revenue collected under the Unimproved Value system will equal twice that collected under Annual Value and Capital Value systems combined.

Figures published by the Census & Statistics Department show that as at April 1956, 70.26% of the population live in areas rating on the Unimproved Value. The proportion has since increased. This steady advance of Unimproved Value rating means that unless the law is altered which gives ratepayers a local option in the matter there will, in time, be only one rating system. We urge the Commission to recommend that this day be hastened and this one system be universally established. This will bring an end to a constant battle and will free the energies of many public-spirited ratepayers for other fruitful undertakings.

C. IF RATING ON THE UNIMPROVED VALUE WERE THE SOLE RATING SYSTEM IT WOULD MAKE POSSIBLE ONE VERY IMPORTANT REFORM IN VALUATION.

If there were one system of rating, and that on the Unimproved Value, it would be necessary for the purposes of taxation to value land only, and the valuation of improvements could be made by the Valuation Department only as was needed for other purposes such as death duties, stamp duties, lending moneys, etc. Rating on the Unimproved Value has been the sole rating system in Queensland since 1890. In this State the Valuation of Land Act does not require the Valuer-General to value improvements at all. On this basis the whole of New Zealand could be valued biennially. We are satisfied that this is well within the limits of the possible and that it would be comparatively cheap. The assessment of land value is simple compared with the assessment of improvements. We feel that this would be a very considerable reform because

(1) There would be less violent changes in valuation if the valuations were done more frequently. Nearly all the present dissatisfaction with local taxation has been

due to the huge leap in valuations consequent on the abolition of the Land Sales legislation, coupled with a period of prosperity, rising population and economic expansion.

(2) It would prevent injustice between one local body and another in the case of ad hoc bodies such as Catchment Boards which rate over areas which include a number of contributory bodies.

Unless the valuations are done at one time over the whole area a very considerable injustice can result. This was graphically illustrated in a paper read before the New Zealand Institute of County clerks by the clerk of Paparua County. No less than seven ad hoc local authorities levy rates in this county. Unfortunately for the ratepayers this county was valued before any other local body in the rating area of these ad hoc authorities and consequently they paid £20,000 more in rates than if all had been valued at the same time. The remedy for this condition is that the whole area should be valued at one time and this would be quite possible if rating on the Unimproved Value was made mandatory.

We are aware that legislation was passed last year to attempt to meet this situation. This is typical of so much of the local body legislation. It is a clumsy attempt to treat the effect while ignoring the cause. The real remedy is to revalue the whole area at one time.

(3) It would prevent injustice between ratepayers. The area of one local authority may include a considerable town such as Opunake or Reefton, dairying lands and pasture lands. The value of dairying and pastoral land moves quickly in response to the changes in the export prices of dairy products, meat and wool. There might be a huge fall in the price of butter, no fall in the price of meat and wool and the values of pastoral and urban lands would remain steady. In such cases dairy farmers should not need to wait for five years for revaluation. The adjustment should be made as soon as possible if friction, if not actual injustice, is to be minimized.

Frequent and just valuations are absolutely necessary if any system of rating is to function smoothly. In our view, valuation cannot be too frequent. Not only would valuations be up to date and in harmony with the economic factors at all times, but they would be uniform over all districts. This would be a major reform and it cannot be achieved unless rating on Unimproved Value is the sole rating system.

This is no doubt why the Local Government Commission recommended that there should be one rating system based on Site or Unimproved values and that the Valuation Department should revise Unimproved Values every two years and Capital Values every six years.

SOME COMMENTS ON SUGGESTED NEW BASES OF PROPERTY RATING

1. AVERAGE VALUE We understand that this system was first advocated in the Hawke's Bay County in an endeavour to bring to an end the three yearly fluctuations between Unimproved Value and Capital Value rating which went on there for some time. This situation has now practically adjusted itself. It is fifteen years since Hawke's Bay now finally adopted Unimproved Value rating, and owing to the capacity which this system has to bed itself into the cost structure it no longer excites the same degree of opposition which it did. The real reason for these three yearly fluctuations lay in the plural voting in counties, but the Hawke's Bay county, instead of attacking this evil, produced a new system called the "Average Value" which has subsequently been endorsed by the Counties Association.

This system is now being put forward as a kind of rearguard action in an attempt to prevent the continued spread in counties of rating on the Unimproved Value. It purports to offer a compromise system which avoids what some would call the anomalies created by Unimproved Value rating and the very real inequities which are an essential part of Capital Value rating.

We deny the permanent reality of these so-called anomalies of rating on the Unimproved Value. Accordingly we are of the opinion that "Average Value Rating" is only half as good as Unimproved Value rating and half as bad as Capital Value rating. The purpose and merit of Unimproved Value rating is the exemption of improvements from taxation. We do not believe in exempting half the improvements. Its second merit is that it maximizes the taxation pressure on land values and therefore has a restraining influence on land values. We believe the stronger this restraining influence is, the better. Soaring land values are a danger sign to the economy. They restrict enterprise, foster land speculation and economic instability. In times of depression they are revealed as a disaster.

We might point out that a type of average value rating in fact already exists in those areas which have Partial Unimproved Value rating such as Christchurch and Invercargill cities and some counties such as Tauranga, Awatere, Waimate and Southland.

We do not know what the Counties Association is actually proposing in regard to this system. Whether it is to be yet a fourth choice to be put to the ratepayers. Whether this system is to be introduced on the motion of county councils, or whether they propose that it should be made universal over the whole country.

One thing is certain: that if this system is introduced, it will effectively block the various reforms such as the reform in valuation which could arise from having one system on the Unimproved Value.

We urge the Commission not to further complicate a bad situation by countenancing this novelty.

PRODUCTIVE VALUE

There has been from time to time some advocacy of what is termed the productive value of land as a basis of local taxation. It is not easy to see clearly what this means. It is presumed that it means value based either on the value of actual production from the land or on the value of potential production. Surely it can only mean the value of potential production otherwise land unused would have no productive value and would escape rating altogether. It clearly can apply only to primary producing land because urban residential land is not used for production. Now the Unimproved Value of rural land is determined mainly by its potential producing power and hence this basis meets all the requirements of a value based on production. The so-called "productive value" proposed is vague, incapable of accurate assessment and liable to great variations with price movements. Valuations arrived at would be almost impossible to defend under attack because there is no norm such as market value to which the valuer can appeal. A separate kind of valuation for rural areas makes it impossible to bring in a uniform taxation system. Within counties which contain both rural and urban areas two different bases of valuation would be necessary. Where land is changing its use from rural to urban very grave anomalies would arise, for rating purposes it would be valued at, say, its butter fat production capacity and for selling purposes it would be valued as building lots. This proposal further complicates a situation already too complex. It would create much friction and many anomalies and above all it would prevent the advantages which one system on Unimproved Value would bring.

THE STANDARD VALUE ETC.

This so-called system of rating was produced by Tauranga County Council. We have made an honest but unsuccessful attempt to understand it. We mention it only to indicate the absurd lengths to which so called practical people engaged in local body affairs will go to prevent what they regard as anomalies. This point is further illustrated by the proposal of Cook County who want a modified Capital Value system, but not Average Value, because their present rating system bears too gently on the back country settlers.

We consider the debate on rating systems has gone on long enough. One sound and proven system should be finally established.

PART IIS U M M A R Y

ON THE SUPERIOR ADVANTAGES OF RATING ON THE
UNIMPROVED VALUE OVER RATING ON THE CAPITAL
VALUE AND ANNUAL RENTAL VALUE

1. ETHICAL CONSIDERATIONS AND PRINCIPLES
2. THE ECONOMIC EFFECTS OF A RATE OR TAX ON LAND VALUES
3. THE DIFFERENT INCIDENCE OF THE RATE ON LAND VALUES AND
THE RATE ON LAND AND IMPROVEMENTS TOGETHER
 - A. The technique of the General Ratio.
 - B. The distribution of rates between the commercial
centre and the periphery in boroughs and cities.
4. SOME FURTHER ASPECTS OF A RATE ON LAND VALUES
 - A. How the rate is absorbed and bedded into the
cost structure
 - B. The effect of the rate on urban sprawl
 - C. Rating systems and property ownership

PART II

In the last section it was claimed that the advantages of rating on the Unimproved Value over Capital Value and Annual Value rating were so great that it should be the sole system. In this section we propose to submit this proposition to detailed examination.

1. ETHICAL CONSIDERATIONS AND PRINCIPLES

The Local Body Commission endorsed rating on the Unimproved Value because they thought it was more ethical. Our Society supports rating on the Unimproved Value not because it is more expedient or because it would facilitate major reforms in the reorganization of local government, but primarily because we consider that it is just. Rating on the Unimproved Value is based on two principles. The first principle derives from the NATURE OF LAND value and this must first be considered.

It is a commonplace of practical experience that in certain circumstances one man will pay another for permission to use land. This payment for the use of land owned by another is "economic rent" i.e. the annual rental value of land apart from any improvements. The right to receive such an annual payment in perpetuity has a market price. This price is land value or, as we call it in New Zealand, the Unimproved Value of land. This is the value which is levied on by the local rates. Now whence does this economic rent arise and why will one man pay an annual fee to another for the right to use land or buy the right from another? It arises first because land is limited in quantity and secondly because it varies in quality. If I can get for nothing land which will produce £100 of production per year, I will pay £ 50 a year for permission to use land which will produce £152 in production per year with the same application of labour and capital. The same principle applies when it is not a matter of wealth production but some other human need which land is serving, such as suitability for a dwelling house.

The different capacity of land to satisfy human needs arises from two causes.

1. the original natural differences, these are the work of the Creator, and
2. socially created differences such as are caused by roads, railways, educational facilities, etc.

These are the work of man acting as a community. In both cases it is clear that land values which derive from these differences are not due to the labour of an individual man and therefore should not be owned by an individual man but by all men i.e. the community. A rate on the Unimproved Value takes some of this land value for the use of all the citizens of New Zealand to whom in ethics it belongs. Making ownership of land value one of the rights of property, whereas in ethics it is not, has been a potent factor in destroying in a large portion of the world the true rights of property.

A statement of our views on property rights will be found in Appendix A.

The FIRST PRINCIPLE therefore is "Land values are not the product of human labour but arise from nature and from the communal activities of man. They should be in ethics owned by all men, that is, the community."

The SECOND PRINCIPLE on which the rating on Unimproved Value is based is this. "All New Zealanders have natural and equal rights in the soil of New Zealand." If some under the law enjoy special and exclusive rights in land and others have none at all, then it is only just that the whole body of New Zealanders should be paid rent by each land owner in proportion to the Unimproved Value of the land he holds.

Lord Goshen once called rates in England a "rent charge in favour of the community." This description fits admirably the rate on Unimproved Value. This principle has long been accepted in this country and has given a distinct character to our social and legal concepts. It was recognized by the Royal Commission on Taxation 1922 who stated: "The right to occupy land in New Zealand is deemed by the State to be a privilege for which

the occupier should pay, such payment becomes a first charge on the land and precedes all other debts and liabilities."

Holding these views, we regard rates as the part payment only of a debt justly owing and which should be paid.

RATES ARE NOT A CLASS TAX IN ANY SENSE BUT A JUST PAYMENT DUE FOR SERVICES RECEIVED AND PRIVILEGES ENJOYED and if the charge were made and paid in full it would be ethically justified.

In passing, it might be commented that the persons paying this charge include all the richest individuals, companies and corporations in the country. The ratepayers of New Zealand paid rates in 1955-56 to the extent of £18.9 million, but the land values which they still had left after this annual payment amounted to some £644.4 million. In addition they own fixed improvements attached to property valued at £1,663.2 millions, not to mention some 40,000,000 sheep, 6,000,000 cattle, nearly a million pigs and horses etc. etc. The modest charge placed upon this large section of the community by rates is really rather trivial compared with its capacity to pay and the privileges and benefits which it enjoys. Yet in any discussion of rates there is a curious tendency to consider solely the case of the Pensioner.

2. THE ECONOMIC EFFECTS OF A CHARGE ON LAND VALUES

The economic effects of such a charge as is made by rating on the Unimproved Value is summarized as follows by Professor B. E. Murphy in his well-known "Outline of Economics." They are, of course, a commonplace of economic theory.

"A Tax on Land value can be made very productive of revenue and is readily calculated. It is also certain in its incidence and cannot be shifted. It does not enter into prices or directly affect the cost of living. It cannot be evaded and it is less likely than many taxes to have injurious reactions on the motives of saving and production. Its incidence is clear. It falls on the landowner and cannot be shifted. It falls on the capitalized economic rent and since land rent does not enter into the price of commodities, neither does the tax imposed on it. If permanent it is amortised by the capitalization process and diminishes the selling value by the capitalized value of the tax."

The economic effects of a tax on goods produced by labour are of course quite different. Whereas a tax or charge on land value cheapens land, a tax or charge on goods produced by labour makes them dearer. Consider for example the effect of a tax placed on a building only but not on the site. The return to investment in the building is reduced by the tax. Capital investment is therefore diverted from buildings to untaxed channels of investment. In consequence the supply of buildings is checked until the demand of tenants raises rents to a point to cover the tax on the building. The tax finally falls on the tenant and in a real sense the cost of buildings is raised. These effects are quite the opposite from a tax which falls on land only.

DIAMETRICALLY OPPOSITE EFFECT OF A TAX FALLING ON BUILDINGS ONLY AND SITE ONLYBUILDINGS ONLY

Vacant land escapes all tax.

Return to investment is reduced by the tax.

Capital investment in buildings is reduced and diverted to

Increased investment in sites.

Speculation encouraged.

Price of sites increased.

Cost of building increased because the annual charge on it is a cost.

SITE ONLY

Vacant land pays all the tax, used or not.

Return to investment in building unaffected.

Investment in vacant sites reduced and diverted into

Increased investment in building.

Speculation in sites diminished.

Price of sites reduced by the charge capitalized.

Cost of building not increased.

Now Capital and Annual Value rating tax both site and building so the economic effects largely cancel each other out, but by removing the tax off the building and still leaving it on the site this balance is upset. By adding the element of the tax removed from the building on to the portion left on the site the economic effect is greatly enhanced. This charge falls on land whether it is used or not. Property has to be put to work to pay its way. The more fully it is used the relatively less rate it pays. There is a constant built-in stimulus to full land use and a heavy tax penalty for non use and under use.

In addition to these economic effects there is a marked change in the incidence of the rate when a change is made from Capital or Annual Value rating to Unimproved Value rating.

3. THE DIFFERENT RATE INCIDENCE UNDER UNIMPROVED VALUE AND OTHER SYSTEMS

It was recognized from the beginning that the incidence of rates under the system of rating on the Unimproved Value differed considerably from that under the two other systems and indeed this was, and is, the chief reason for the opposition to its introduction.

(A) THE GENERAL RATIO

The difference in rate incidence on individual properties in an area under these two systems can be quickly determined by the device of the General Ratio. By this is meant the ratio of the value of improvements to total land value over the whole rating area. An illustration may make the meaning of this clearer.

Taking the rateable values for Napier City for the year 1953, as given in the Local Authority Handbook No. 30:-

VALUE OF IMPROVEMENTS	=	£13,421,585
VALUE OF LAND	=	£ 3,512,020
CAPITAL VALUE	=	£16,933,605

For every £100 of land value, there is £382 worth of improvements. The ratio then is 382 : 100 or, more simply, 382. This is the ratio for the whole area or General Ratio.

Each individual property has a ratio. Where the ratio of any individual property is 382, there will be no difference in the amount of rates, whether the rates are levied on Unimproved or Capital Value. In properties which have a greater ratio than 382 rating, the rate will be lower under Unimproved Value rating. Properties which have a ratio of less than 382, the rate will be higher under Unimproved Value rating. That this must be so is evident when we consider a specific case.

Suppose the city needs a revenue of £150,000. To raise this sum, it will be necessary to have a rate of 2.127d. in the £ on Capital Value, or 10.25d. in the £ on Unimproved Value.

Capital Value £16,933,605 @ 2.127d. in the £ = £150,000

Unimproved
Value £ 3,512,020 @ 10.25d. in the £ = £150,000

(a) Consider a property with a ratio of 382:

VALUE OF IMPROVEMENTS	..	£382
VALUE OF LAND	..	£100
CAPITAL VALUE	..	£482

RATES C. V. = £482 x 2.127d. = £4. 5. 5.
RATES U. V. = £100 x 10.25d. = £4. 5. 5.

It makes no difference to the rates, therefore, with the ratio the same as the General Ratio, whether the system is C.V. or U.V. If the ratio is greater than 382, the rates will be lower under U.V.

(b) Suppose the ratio of the property is 500:-

VALUE OF IMPROVEMENTS	..	£500
LAND VALUE	..	£100
CAPITAL VALUE	..	£600

RATES C.V. = £600 x 2.127d. = £5. 6. 4.
RATES U.V. = £100 x 10.25d. = £4. 5. 5.

(c) Conversely, suppose a ratio of £300; then the rates would be as follows:-

VALUE OF IMPROVEMENTS	..	£300
LAND VALUE	..	£100
CAPITAL VALUE	..	£400

RATES U.V. = £100 x 10.25d. = £4. 5. 5.
RATES C.V. = £400 x 2.127d. = £3.13.10.

In no class of property is the ratio more consistently above the General Ratio than in private homes. They are on the outer parts of most towns, where land values are lower, and the value of improvements is relatively very high. 80%-90% of homes, therefore, have their rates lowered by a change to Unimproved Value Rating. This fact is largely responsible for the spread of the Unimproved system.

Wherever land use is above average for the area Unimproved rating means a lower rate, and wherever it is below average it means a higher rate and it is highest of all on valuable unused land. Investors and speculators are penalized and land users are rewarded. This is of great social importance.

Vacant land, slums, blighted buildings, in fact all inferior land use is penalized by Unimproved rating. Good homes, good manufacturies, good commercial buildings, good flats are relatively favoured.

A constant, unwearying stimulus to full land use is built into society, a reward to industry and enterprise and a spur to progress.

The social effects of Capital and Annual Value are exactly opposite. We regard this as a very powerful argument for Unimproved Value Rating.

We append as Appendix B. a field study on this aspect of rating carried out in Footscray, Victoria.

DUNEDIN	1952/53 RATEABLE ANNUAL VALUE	31/3/1952 RATEABLE UNIMPROVED VALUE	RATES A.V. at 4/5 in £1	RATES U.V. at 8.584d in £1	INCREASE or DECREASE on U.V.
	£	£	£	£	£
Inner Area	1,179,136	8,957,060	260,400	320,300	+ 59,900
North-east Valley	214,814	1,004,185	47,430	35,920	- 11,510
Maori Hill	118,016	578,520	26,060	20,690	- 5,370
Roslyn	264,826	1,403,840	58,480	50,210	- 8,270
Mornington	203,690	1,055,610	44,990	37,780	- 7,210
Caversham	339,064	1,603,480	74,890	57,430	- 17,460
South Dunedin	145,916	913,930	32,220	32,690	+ 470
Andersons Bay	195,790	910,935	43,230	32,680	- 10,550
TOTALS	£2,661,252	£16,427,560	£587,700	£587,700	+ 60,370 - 60,370

(B) The Distribution of Rates between the commercial centre and the periphery in boroughs and cities.

This distribution of rates is quite different under the Unimproved System from that under Capital and Annual Value rating. The rating distribution under these latter two systems is practically identical.

This can be illustrated by the accompanying chart of rate distribution in Dunedin. The chart shows the actual rates struck under the Annual Value system in 1952/53 and what the rates would be if rating on Unimproved Value were adopted. It shows that the rates of the inner area would be increased by nearly £60,000 and the rates in the outer areas correspondingly reduced.

This pattern is quite general in any urban area. Unimproved Value rating puts a bigger load on the central areas because here Ratios are below average.

In Wellington the area inside the town belt pays 63% of all rates. If Unimproved Value were abandoned it would pay 48% or £200,000 a year less. The rate is roughly halved by being tax exempt. Even so, £100,000 capitalized at 5% would mean a capital gain of

£2,000,000 if the system could be changed. This is the genesis of much propaganda against Rating on Unimproved Value.

4. SOME FURTHER ASPECTS OF A RATE ON LAND VALUES

(A) How such a rate becomes absorbed.

We have pointed out that the taxation of improvements has long term antisocial effects. In the short term it gives rise to discontent. It has been said that "a man pays his taxes in sorrow and his rates in anger." For a man to have his rates increased because he builds a garage or adds a room to his home creates a sense of injustice.

Rating on Unimproved Value provokes minimal ratepayer resistance for two reasons. First it means lower rates to the vast majority of home-owners, but for all ratepayers a second and more important factor operates. In quite an unique way, this rate beds itself into the cost structure and becomes absorbed, and for this reason. Property ownership is dynamic and not static and it must always be thought of in this way. There are 750,000 individual properties in New Zealand and about 50,000 (40,000 urban, 10,000 rural) change ownership every year. This velocity of transfer is fairly constant and it means on average all properties change hand every 15 years. It is like a game of musical chairs.

Now a rate on land values lessens the selling price by the amount of the rate capitalized. A section worth £500 would be worth only £300 if a rate of £10 a year were placed on it.

$$(\text{Rate capitalized } £10 \times 20 = £200 + £300 = £500)$$

Every time a property is purchased a lesser price is paid because of the rate charge. A property on Lambton Quay was recently bought for £25,000. The rates were £600. The price paid was £25,000 down plus a yearly liability for £600. Without this liability the price would have been £25,000 + £600 x 20, or £37,000. To pay £25,000 and £600 in rates is the same as paying £37,000. To pay such a rate is no hardship whatever. If the rate is doubled it is a loss to the vendor but to the buyer the new rate is no hardship. This process goes on continuously and in time of rising land values rate rises cause trivial disturbance. Thus with every sale - and they are going on constantly - the rate on the Unimproved Value becomes absorbed and bedded into the cost Structure.

This is the reason that under Rating on Unimproved values there is not the same resistance to rate increases, nor the same bitter concern about the amount nor is the tendency so strong to judge Councillors' merits entirely by the yard-stick of the rate charge and the tendency to seek grants and subsidies is lessened.

Sudden changes in system such as occurred in Dunedin in 1953 cause hard cases, difficulties and anomalies but they are temporary and the rate is soon absorbed in the manner described.

(B) THE RATING SYSTEM AND "URBAN SPRAWL"

(1) In some areas such as Wellington and Hutt City nature has set fairly resistant limits to urban spread. In others, such as Auckland, Christchurch and Invercargill, such natural barriers do not exist and other factors such as the rating incidence is of correspondingly greater importance. We contend that taxing improvements as in the Annual Value and Capital Value systems encourages unnecessary sprawl and rating on the Unimproved Value acts in the opposite direction. Systems which tax improvements put minimal charges on vacant land and slum land and such land can be, and is, held out of use until it can be sold to maximal advantage.

The result is that home makers have got to go right past good building land and trespass on the cheaper land at the margin of the city area. This means that the city spreads over a greater area than it should and increases the difficulties of the local authorities in providing good roads, water, sewerage, street lighting, footpaths, etc. etc. The principal example of this tendency is in Auckland City which has spread enormously in recent years. A fast-growing metropolis must spread, it is true, but in the heart of this city are extensive areas of land grossly underused. A substantial rate on land values would clear slums without any crow-bar brigades and would encourage or even compel better land use and reduce pressure on the periphery.

(2) The question, however, is larger than this. New Zealand is a primary producing country and we simply cannot afford to permit the steady encroachment of cities on the farming land. Great cities cannot be built of bungalows and more intensive use of urban land is imperative, that is, it must carry a greater population per acre and there is no doubt that it can with proper planning and the construction of flats and community units. Private gardens, private drying greens, private play areas would, under these circumstances, have to give way to amenities shared by groups or families. There is much social resistance to overcome before this idea becomes popular and practicable but it will never become practicable if such improvements are singled out for automatic penal taxation as they are under the Annual Value and Capital Value rating. Under Unimproved Value Rating such improvements would be tax free and to that extent their realization rendered at least possible. At the same time the greatly increased taxes on land which this system would cause would cheapen urban land and so further facilitate its acquisition for subdivision and use.

(3) In our view tax methods, however, are only part of the answer to the question of urban sprawl. The other is planning. The greatest enhancement of land values occurs when land changes its use, e.g. from farm land to residential land and from residential land to commercial land. At this point the leap of value is great. We contend that changes in the use of land should not be determined solely by individual wishes and profits from the sale of land. This is a matter where society has rights as well. We contend that land should change its use only within the framework of a general plan of land utilization and that a permit should be obtained from the regional planning authority before such changes can occur. We feel that the machinery for doing just this is supplied by the Town and Country Planning Act of 1953 and provided its principles are vigorously applied and the change of district and regional plans is made a matter of great difficulty we are satisfied that it will work well and make a major contribution to solving the problems of unrestricted urban sprawl.

The Act has not yet had time to be effective, a large number of local authorities have as yet not drawn up plans as the Act requires. No doubt experience will be required in administering it but we are satisfied that it is a good Act and that it provides a large part of the answer to this problem. It might be contended that the Town and Country Planning Act alone is the only answer needed to restrain excessive urban spread. We submit that it is much more likely to be effective if the centrifugal force stimulated by the Annual Value rating is removed and this system replaced by rating on the Unimproved Value.

In our view, therefore, the remedy for excessive urban spread lies in the Town and Country Planning Act, the universal adoption of the system of rating on the Unimproved Value and reforms in valuation procedure which could result if this change in rating were made.

(C) RATING SYSTEMS AND PROPERTY OWNERSHIP

Rating on the Unimproved Value restrains and checks land prices. When this system is adopted several economic forces are set in operation, some of which are temporary and others permanent, some operate more strongly in one set of circumstances than in another.

By making it unprofitable to hold land out of use it tends to bring vacant land and underused land into the market because land which is subject to a substantial charge has to be made to pay its way by being used or put on the market. This free offering of land tends to lower the price.

Another more important factor which operates in the same direction is that the annual rate on the land directly diminishes the selling price by the amount of the rate capitalized.

This restraint on the price of bare land is of profound social importance. Cheaper land means that the would-be producer requires less capital and at the same time the instruments of production are freed from local taxation. Above all, the cheaper land is the easier it is to acquire. Only rich men can buy dear land; more men can buy cheap land. By inhibiting the aggregation of land into huge blocks of value and keeping its price down, rating on the Unimproved Value tends to the widespread ownership of land. It thus advances the realization of that ideal of free men - a property-owning democracy.

This seemingly hum-drum subject then goes right to the heart of the vital question of the relationship of man to the earth. This is perhaps the most ancient and permanent realm of social conflict. Modern society suffers from a disease called Monopolistic Capitalism. The chief evidence of the disease is the ownership of natural resources by the very few.

The reaction to this disease is Communism. The alternative to both these horrors is a property owning democracy. That's what our organization is striving for.

We want all adult New Zealanders to be property owners.

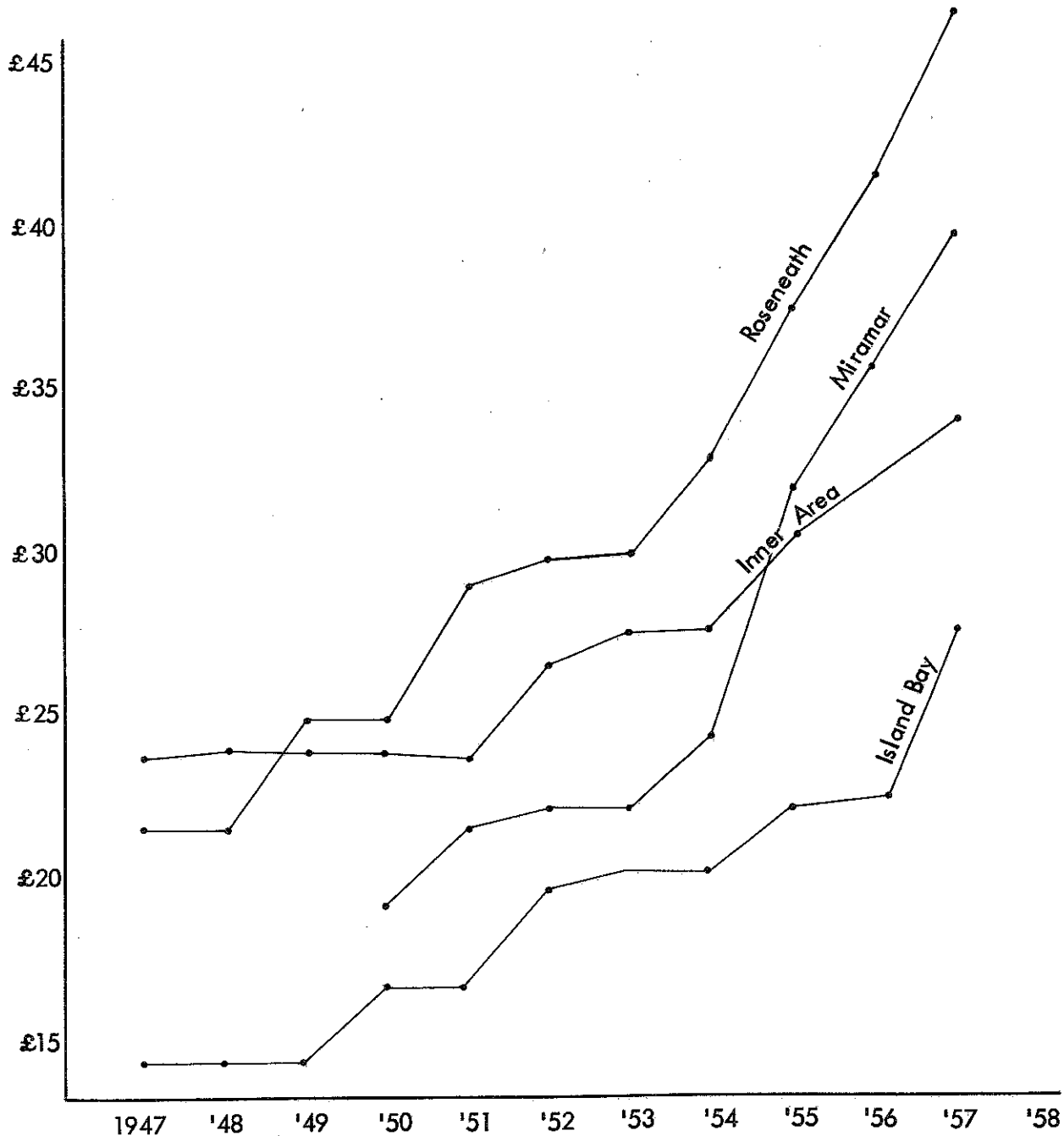
PART III

S U M M A R Y

1. THE EXTENT OF RATE INCREASES IN THE PAST
TEN YEARS.
2. THE RATE INCREASE RELATIVE TO OTHER RELEVANT
ECONOMIC FACTORS.
3. RATES IN RELATION TO OTHER TAXES: E.G.
INCOME TAX AND LAND TAX.

PART III1. THE EXTENT OF RATE INCREASES IN THE PAST TEN YEARS

Much has been said about the spectacular increase in rates in the past few years and the opinion has been authoritatively expressed that the limits of rating have been reached and passed. Meanwhile the revenue needs of local authorities are still increasing and some alternative sources of revenue must be found. We dissent from these opinions. It is true the level of rating has increased substantially in the past ten years. The following graph indicates the increase over typical residential properties in Wellington.



This increase in more general terms is illustrated by the table:

<u>Rate Increases</u>			
Areas	Rates 1946-47	Rates 1955-56	% Increase
	in millions	in millions	
Borough and Cities	£5.7	£11.5	102.7%
Counties	£2.7	£ 5.7	109.2%
Others	£1.1	£ 1.7	50.9%
TOTAL	£9.5	£18.9	100.0%

That the rate increase has been substantial there is no doubt. The increase must however be viewed in correct focus.

2. THE RATES INCREASE RELATIVE TO OTHER RELEVANT ECONOMIC FACTORS

The following table shows the movement of certain key statistical aggregates over the past nine years.

	1946-47	1955-56	% Increase
	in millions	in millions	
Total Rates	£9.5	£ 18.9	100%
Wages and Salaries	£186.0	£468	151.6%
Gross Farm Income	£111.3	£282.1	153.5%
National Income	£365.3	£846	131.6%
Land Values Unimproved	£284.3	£644.4	126.7%
Land and Im- provements	£746.4	£2,307.6	209.3%

This table is the basis of our contention that though rates have increased substantially they have by no means increased to the same degree as have the means available to pay them and that in view of the present and future needs of local authorities that a substantial increase in rates in the future is both necessary and inevitable. If this increase is borne by improvements such as homes, etc. it will involve considerable hardship and have most undesirable social consequences. If on the other hand it is borne by land alone it will be readily borne because of the peculiar way such charges are absorbed and moreover, the rate will be the source of some positive social good, in that it will stimulate efficient land use, penalize inefficient land use and have a restraining effect on dangerously high land values.

3. RATES IN RELATION TO OTHER TAXES: E.G. INCOME TAX AND LAND TAX.

We consider that this relation is relevant and extremely important. Companies, private and public, all commercial and industrial firms, all hotels and boarding houses and all farmers can and do deduct the rates as a tax exempt expense in respect of income

tax. Ineed the only taxpayer who is denied this advantage is the home owner. For companies the maximum income tax charge is $8/8$ in the £l. The Social Security charge is $1/6$, making a total of $10/2d$ in the £l. Rates are tax exempt. This means in effect that the actual payment of rates may be reduced by as much as 50%. This applies over the whole commercial area of cities. We have pointed out that in Wellington this area pays approximately 63% of all the rates. This seems to be a heavy load to carry but the load is halved by the fact that rates are exempt from tax. Another extremely important factor in regard to this central city property is the Land Tax. It is from the central city areas that about one half of the yield of Land Tax is derived. This tax, far from increasing with the depreciation of money and the huge expansion of the economy, has been steadily decreased. In 1926 the Land Tax, out of a total budget of £16 million, produced £1,600,000 or 10% of the whole. It is estimated to yield in 1958 £1,400,000 out of total taxation receipts of £254 million. There is no doubt whatever that for commercial city property the rate level is moderate and if necessary can stand a substantial increase. This opinion is borne out by the high level of land values as shown by recent sales.

For farmers also, rates are entirely tax exempt. There is no attempt to apportion rates as between the homestead and the farm. The whole sum is treated as an expense in earning the farmer's income. The maximum income tax for a farmer is $12/-$ in the £l. and to this must be added $1/6$ Social Security charge, making a total of $13/6$. The maximum tax exemption on a farmer's rates is thus $13/6d$ in the £l. This represents a possible rate reduction of 67.5%.

This relief of rates is denied to the home owner and we can see no reason why it should be. Should the Commission feel that the homeowner needs some relief in the matter of rates so that he can bear the inevitable increase in the future, we recommend:

1. That the homeowner be able to treat his rates as tax exempt from income tax.
2. That all rates be on the Unimproved Value because as we have shown in an earlier section, this system gives lower rates to from 80/90% of home owners.
3. The Rating Amendment Act 1954, which gives to councils considerable powers in the reduction of rates or the deferring or payment of rates should be administered most generously. Tax deductibility is of no advantage to persons with no taxable income and it will be noted that the higher the income the higher the tax rate and the greater exemption of rates. The richer a man is the more his tax is abated and the person who is so poor as not to pay any tax at all would get no advantage from this provision. This person needs it most of all. This proposal would, therefore, give no advantage to elderly couples living on fixed incomes and pensioners, and for this reason the administration of the Rating Amendment Act in regard to such persons should be done most generously.

On the other hand, such cases should not be regarded as the norm in the discussion of rates. This small group of people are the ones for whom future rate increases will be a great hardship and ways and means should be found of protecting their interests as far as possible.

The Commission might feel disposed to recommend that a carefully defined group of such non-income tax payers should as of right have their rate demands reduced by say 5/- in the £l. We are convinced the revenue loss would be small.

PART IVS U M M A R Y

1. ON THE IMPORTANCE OF PRESERVING THE TAXING POWERS
OF LOCAL AUTHORITIES
2. THE FUTURE FINANCIAL NEEDS OF LOCAL AUTHORITIES
AND THEIR POSSIBLE SOURCES
 - A. Rate Increases
 - B. Subsidies from Central Government
 - C. Other taxes
 - D. Suggested possible sources of further revenue
 1. Land Tax
 2. Tax on future increases in land values
 3. Payment of rates by the Crown
 4. Increased revenue from the rents of
municipal properties
 5. Some profits from the sale of licences
which have a market value
3. OTHER MATTERS
 1. Financing Capital Works
 2. Parking Meter Revenue
 3. Poll Taxes

1. LOCAL AUTHORITIES AND THE POWER TO TAX

Local Government in this country is of very great importance. It is an essential part of our democratic system. It is government close to the people and for that reason it is good government. It offers a field of useful public activity to a large number of ordinary citizens. It is our chief and natural protection against an undue degree of centralism, government by bureaucrats and remote impersonal control. The power to tax is the life blood of local government. Although local authorities are the creatures of parliament they must have some independent life and this independence can be preserved only if their powers to tax are preserved.

Local government which depends for its finance on subventions and subsidies from the central government is either dying or dead. Local bodies are destroyed or reduced to the level of mere administrative committees when they have not got this power. EDUCATION BOARDS in this country have, on paper, tremendous power and authority, but because they have not got the power to tax they have in fact no power and authority, and all the power and authority has passed to the Education Department which controls the distribution of the Education grant.

The power of the HOSPITAL BOARDS in this country has been practically destroyed. The hospital levy was stabilized at $\frac{1}{2}$ d. in the £ of capital value by the Finance Act (No.2) 1946, and in the same Act the first drastic reduction in the powers of the hospital boards was enacted. The new Hospital Act has completed the reduction of the hospital boards to mere agents of the Health Department. It is quite certain that responsible, able and intelligent men will no longer offer themselves to serve on hospital boards when such boards no longer have responsibility and power.

Financial grants and subsidies from the central government are the "kiss of death" and the greatest enemies of local government are those who always hold out their hands for such grants and subsidies. This reduction in the authority of the Hospital Boards has been a grave blow to local government in this country. It has benefited nobody. The hospital levy has disappeared like smoke. Consider for example a property, say, in the centre of Wellington, which paid £100 a year in hospital rates. The property is sold. Its price is enhanced by £2,000 because of the abolition of the levy. The new ratepayer is not one whit better off than if the rate had not been abolished. Like all derating schemes it has merely subsidized the selling out industry. It is of no permanent benefit whatever. For this "mess of pottage" the authority of Hospital Boards has been destroyed. We recently had the rather ironical spectacle of the President of the Municipal Association at the last Municipal Conference thanking the Minister of Internal Affairs and expressing the gratitude of the members of his Association for this wonderful concession, which has done nothing but destroy the power of Hospital Boards and weakened the whole structure of local government. Later in his speech he pleaded for the extension of the powers and responsibilities of local bodies.

2. FUTURE FINANCIAL NEEDS OF LOCAL AUTHORITIES AND THEIR POSSIBLE SOURCES

A. RATE INCREASES

There is little doubt that the financial needs of local authorities are increasing and will continue to do so. We will consider now how these increases might be met. We have indicated as our opinion that increase of revenue from rates in the future is both inevitable and necessary. In this connection the extraordinary losses on public transport systems should be mentioned. We see no reason why, where it is necessary, the transport losses should not be met from a transport rate. There is no single factor which adds to the value of land in the peripheral suburbs more than the public transport system, and it seems not unreasonable that some of the losses at least on these enterprises should be met from this source.

B. SUBSIDIES FROM CENTRAL GOVERNMENT

It has been pointed out that these are particularly disastrous to local bodies. Even in our own history we have had an example of the destructive effect of the small subsidies for local authorities which began in 1876. Each county was entitled to a maximum subsidy of £2,000 a year. The principal effect of this subsidy was to cause Road Boards to convert themselves into independent counties and so maximize the subsidies payable. The number of counties rose from its original 63 to 125 and county government was terribly weakened. Comparison is sometimes made with the situation in England where a large proportion of local revenue is received from the central government. The position there is in no way analagous to New Zealand. In England the local body carries out so called national functions such as education, police and health administration, which have no counterpart in New Zealand, and the payment of subsidies from the central government is in recognition of this fact.

C. OTHER TAXES

It has been suggested that the local authorities should have as of right some proportionate share of the proceeds from general taxation, or alternatively that they should be empowered to levy taxes on income, sales, petrol, etc. parallel with central government taxes. These suggestions are, in our view, completely unrealistic. The central government has exhausted as far as it possibly can the sources of revenue, and the needs of the central government tend to increase rather than to decrease. Furthermore, taxation in the modern state is designed not to produce revenue only. Indeed, this function has become almost of secondary importance. Taxation in the Welfare State is a means of redistributing the National income.

Even more important, it is a major instrument of fiscal policy designed to inflate or deflate, to expand or contract, to stimulate or inhibit the economy. All taxes have political, economic and social effects and are used to secure some effects and avoid others. No government could surrender this power or even weaken it by permitting the interests or needs of subsidiary authorities to limit or hamper its freedom of action. It is absolutely essential that the sphere of central taxation and local body taxation should be kept completely separate and independent. This is a necessity not only for the good of the central government, but also for the good of the local government.

There is one field of taxation from which the central government over the last fifty years has steadily withdrawn, and that is from the field of land value taxation. The general Property Tax was the principal source of revenue in this country for many years. This was replaced by the Land and Income Tax and in this combination the Land Tax was at one time by far the more important. Now the Income Tax has become the principal source of government revenue and the Land Tax has become quite minor, and year by year the Budget reduces its comparative importance. It is probable that the central government would withdraw from this field and leave it entirely to the local bodies if it were requested to do so.

D. SUGGESTED FURTHER SOURCES OF LOCAL BODY REVENUE

1. THE LAND TAX

We have indicated that it would not be a bad thing if the proceeds of this tax, estimated at £1,400,000 for 1958, should be distributed to local bodies. There are very substantial reasons why this tax should not be abolished and we would be happy to submit to the Commission detailed reasons on this point. These reasons, no doubt, have operated in preventing the abolition of the Land Tax long ago. It has survived long periods of conservative administration and it would appear to be destined to survive for quite a long time yet. Last year a big campaign was carried on by Federated Farmers and the Associated Chambers of Commerce to have this tax abolished, but although their representations were sympathetically received, the tax still persists.

We would suggest that the rates of tax be so adjusted as to produce £3,000,000 a year and that this sum should be distributed to the local authorities within whose territory the tax is paid. We would much prefer to see this tax distributed as an endowment to very much larger and stronger territorial local authorities.

To such local authorities the collection of the tax could also be transferred but in the existing circumstances this would not be possible. The tax would still have to be collected by the Inland Revenue Department, who should charge a fee to cover the cost of collection if only to emphasize the fact that the central government is not paying a subsidy, but merely acting as the agent of the taxing authority. We think the tax should not be available to local authorities for ordinary year to year revenue, but must be used entirely for capital works. It must not be used as a substitute for rates, but something in addition to rates. Further, we think the central government should have the power to withhold or to exclude from the distribution of the tax local bodies which do not carry out their statutory obligations, for example, in regard to the Town and Country Planning Act or the elimination of noxious weeds, etc. Three million pounds so distributed would increase total local body tax revenue by from £19,000,000 to £22,000,000.

2. TAX ON FUTURE INCREASES IN LAND VALUES

In the United States of America there is a Federal Capital Gains tax and the treasury can appropriate through this tax a proportion of the increased value of shares and fixed property of all sorts. We would not advocate a Capital Gains Tax in this sense, but we do think that future increases of land value might be the subject of a special tax. Such a tax, struck on a national basis, is used in Denmark.

Here, however, the tax is an annual tax on the amount by which the assessed value of the land has increased between 1950 and the date of the latest valuation.

We would combine the idea of a capital gains tax and the Danish tax on land value increases.

This we would do as follows. WHEN A PROPERTY IS SOLD THE INCREASE IN THE LAND VALUE SINCE THE DATE OF PURCHASE WOULD BE SUBJECTED TO A TAX OF SAY 10%.

This can be best explained by an example. A house property is sold for £3000 which was purchased for £1000. Here the capital gain is £2000. This sum is divided into two parts representing the value of the land and the value of the house, or other improvements. This is done by dividing the £2000 in the proportion which the land value bears to the value of improvements in the most recent valuation. In this case the Government valuation is Value of land = £500 and Value of Improvements = £2000 making a Capital Value of £2500. That is the Land Value is one fifth of the Capital Value. Now the capital gain is £2000. One fifth of £2000 is £400. On this £400 we advocate a tax of 10% or £40. This sum would have to be paid before the transfer of the property could be completed, possibly by the purchase of stamps.

Such a tax would have a very salutary restraining effect on rising land values and could be a productive source of revenue to local authorities. Moreover this is a field of taxation outside the range of present National Taxation.

3. PAYMENT OF RATES BY CROWN PROPERTY

We do not see any valid reason why the Crown should not pay rates. Rates are at present paid on the premises of Government trading departments: other Government property pays rates only for such direct services as water, sewage and rubbish collection. The principal sufferer from the failure of the Crown to pay rates is, of course, Wellington City. It is estimated that Wellington City loses in rates a sum of £130,000 a year. Christchurch City, which is comparable in population, loses rates to the extent of £50,000. It can be argued, of course, that Wellington City receives other intangible

benefits from being the seat of government. This is undoubtedly true, but it is very doubtful if being the seat of government adds to the city's income. There seems to us to be a very strong case for some special consideration at least in the case of Wellington, but we think the simplest solution is for the Crown to pay rates in all local body areas. A further suggestion is put forward that if the Crown pays rates to the municipalities on property which it uses, then the municipal trading departments should be liable for income tax. In this we cordially concur. We see no reason whatever why the municipal trading departments, sometimes operating in competition with private companies who pay taxes, should not be subject to income tax. We say this all the more readily because we believe that trading departments of a municipality should not make profits at all, and that any potential profits should be distributed to their clients in reduced charges. In this connection we would protest against the transfer of profits from trading departments for the relief of rates. This is practically treating the ratepayers as if they were the shareholders in a company. The Parliamentary Committee on local government in 1945 recommended that the transfer of profits from municipal trading departments to the general account should be made illegal, and we would endorse that recommendation.

4. LEASEHOLD RENTS OF MUNICIPALLY OWNED PROPERTY

In Wellington City there are some one hundred and ten central city properties owned by the municipality and let on twenty-one year leases with the perpetual right of renewal. In our opinion these leases are grossly unsatisfactory from the point of view of the municipality. Recently a number of these leases have been sold at prices which would indicate that the lessees' interest is enormous and very much greater than that of the lessor. We set out herewith details of four such recent sales:

1. AUREY GAULTER & CO.LTD. to ALLIANCE ASSURANCE CO.LTD.

Sale:	October 1956	Price:	£50,000
Government Valuation		Capital Value	= £27,000
(31.1.55) of freehold		Unimproved Value	= £20,000
		Value of	
		Improvements	= £7,000
Lease:	21 years from 15.11.48.		
Rent:	£466 per annum.	5% unimproved Value	£1,000

2. J.B. McEWAN & CO.LTD. to NEW ZEALAND WOOL BOARD

Sale:	7.5.54	Price:	£26,500
Government Valuation		Capital Value	= £21,000
(31.1.55) of freehold		Unimproved Value	= £16,250
		Value of	
		Improvements	= £4,750
Lease:	21 years from 1.4.47.		
Rent:	£375 per annum	5% Unimproved Value	£812.10.0

3. J. J. CURTIS to THOS. BORTHWICK & SONS (APEA) LTD.

Sale:	12.4.56	Price	£50,000
Government Valuation (31.1.55) of freehold		Capital Value	= £24,000
		Unimproved Value	= £16,750
		Value of Improvements	= £7,250
Lease:	21 years from 1.8.43		
Rent:	£208 per annum	5% Unimproved Value	£837.10.0

4. C.J.S. HARCCURT to HARCCURT BUILDINGS LTD.

Sale:	30.11.57	Price:	£45,000
Government Valuation (31.1.55) of freehold		Capital Value	= £40,000
		Unimproved Value	= £26,500
		Value of Improvements	= £13,500
Lease:	21 years from 1.2.47		
Rent:	£620 per annum	5% Unimproved Value	£1,325

The rate payable under the leases is fixed by the procedure set down in the Municipal Corporations Act, Section 152. The leases are for twenty-one years. This period is far too long. Many circumstances have tended to increase the lessees' interest and to diminish that of the lessor. The abolition of the Hospital Rate immediately increased the saleable value of these leases. The gradual abatement of the Land Tax over the last twenty years has had the same effect.

In this country the whole economy is dynamic and is likely to continue so for many years. It is unwise, for this reason, to freeze rentals for such long periods. Rentals fixed in a depression may persist through a period of great prosperity. The Council has the powers to reduce rentals during the term of a lease but not to increase them.

Most important of all: the steady depreciation of money has made these rentals absurdly low. This table denotes the extent and rate of depreciation of the pound.

PURCHASING POWER OF NEW ZEALAND POUND

1930	..	..	..	..	..	20/-
1940	..	..	..	..	..	19/4
1950	..	..	..	..	..	14/2
1955	..	..	..	..	..	10/7
1956	..	..	..	..	..	10/3
1957	..	..	..	..	..	9/11

We see no likelihood whatever that this process of depreciation will cease.

We recommend that the relevant provisions of the Municipal Corporations Act be repealed and that similar provisions in the Public Bodies Leases Act should likewise be repealed because this matter does not only concern the municipalities.

We recommend that the valuation of these leases should be carried out by the Valuation Department and that the rents should be 5% of the Unimproved Value as so determined. This should yield a moderate rental in that the Government valuation is notoriously below the market value.

Finally, we recommend that the rentals shall be revised at each successive valuation.

If these four leases are typical of the rest, this would increase the Wellington City Council's revenue from this source by 138%; that is, the revenue would increase from £60,000 to £142,000 - a gain of £82,000. This is the extent to which the city is not getting its just dues.

Very much more important than this setting of a just and reasonable rent is that the future would be safeguarded. These leases are now only some ninety years old. Unless something is done the steady depreciation of money over the next century and other factors will have still further diminished the rights of the municipality in these properties, and we must so amend the law in regard to these leases now that the interest of the City will increase rather than diminish with the passage of time.

5. THE SALE OF LICENSES

All municipalities receive some revenue from licenses, and in some instances the licenses confer monopoly rights, and they have a market value. Licenses to drive a taxicab in this city are worth up to £1,700 on the open market. In our view, this "goodwill" should be the property of the licensing authority. Such licenses should be for a definite period of time, say five years, and they should be subject to public auction.

In the matter of hotel licenses, we would like to see some way in which the value of these licenses was preserved to the licensing authority. If and when local body government is recast and we have larger and more responsible territorial local authorities, the functions of ad hoc bodies - including licensing committees - may well be assumed by these authorities. The licensing authority would then be the local body. Meanwhile, we see no reason why the municipality should not place a tax upon the annual value of hotel licenses.

E. OTHER FINANCIAL MATTERS.

1. FINANCING CAPITAL WORKS

Borrowing for major capital works may be absolutely necessary because of the magnitude or urgency of the work. It is quite unsound, however, for all capital works to be so financed. Wellington City Council, for example, pays some 33% of its rate revenue in sinking fund and interest on loans. This we consider a preposterous state of affairs. Very many more capital works could be financed from revenue and if local authorities are not willing to do so they should be compelled to do so.

There should be a special new Capital Works Rate amounting to at least 5% of the rate revenue struck in every year. The present restriction on borrowing of money by local authorities should be continued; they should not be diminished in any way, and if necessary they should be increased.

2. PARKING METER REVENUE

Wellington City Council received about £40,000 per annum from parking meters. This money is used to meet in part the losses on public transport. In our view, it should be used to help solve the parking problem. Traffic congestion is daily approaching the point of complete chaos and stagnation and the sole contribution of the local authority to the problem is to erect N.P. signs and levy toll on parked vehicles. Offstreet parking has become an urgent necessity and it is the duty of the city to provide it. The motorists are paying for parking and not getting it. Four parking buildings between Thorndon and Courtenay Place to take 360 cars each would clear 12 miles of curbing of parked cars.

We have advocated that it should be made illegal to transfer the profits of municipal trading departments to the general account: the same Act should specify that parking meter revenue must be used to provide parking amenities.

3. POLL TAXES

There has been much press propaganda in recent months re the "unfair burden of the costs of services ratepayers are called upon to meet for the benefit of citizens." "Ratepayers provide parks, etc. which non-ratepayers use, and the "user should pay."

We have pointed out that ratepayers in paying rates are paying just debts, i.e. a rent to the community for services received and privileges enjoyed. If the community decides to use its own income for parks or libraries or anything else it can do so. Ratepayers don't provide parks, etc. These are provided by the Council on behalf of the community with the community's own money.

Recently the chairman of the Counties Association has gone on record as regarding favourably what he calls a citizens tax. By this we think he means a head or poll tax on non-ratepayers. This suggestion is based on the assumption that property owners are a small minority of the adult population. This is a false assumption.

For example: The population of Wellington City is 122,000. Of these 85,000 are 21 years of age or over. Of these, 33,000 are ratepayers. This leaves 52,000 non-ratepayers. Now of these many are "freeholders" on the electoral roll. These are joint owners of property and they share the financial responsibilities of ratepayers. How many there are we have no means of knowing, but we think there would not be less than 7,000. This reduces the non-ratepayers to 45,000.

Of these some 6,500 are in receipt of Age and Invalid Benefits. This leaves 38,500. About 33,000 of this residue are married to ratepayers and taxable remnant is 5,500. This city's rate revenue alone is £1,600,000. At £10 per head the revenue would be only £55,000.

We do not think a head tax will make any serious contribution to the problems of local body finance.

This proposal, incidentally, ignores the fact that all rent payers and roomers and transients pay rates in their rent and board.

PART VS U M M A R Y1. THE METHOD OF ESTIMATING THE
UNIMPROVED VALUE.

We consider the law at present is unnecessarily restrictive.

2. THE PROCEDURE FOR VALUING INVISIBLE
IMPROVEMENTS OR IMPROVEMENTS WHICH
MERGE IN THE LAND.

We consider that under certain defined circumstances value of such improvements should merge in the Unimproved Value.

3. SOME FURTHER APPLICATIONS OF THIS
PRINCIPLE.4. ONE FURTHER NECESSARY REFORM

PART V.1. THE METHOD OF ESTIMATING THE UNIMPROVED VALUE.

It is with some hesitation that we venture on to this rather intricate question. In our view it has been made intricate by the subtlety of the Courts rather than the intention of the legislature. In the rating on the Unimproved Value Act of 1896 the Unimproved Value was merely defined as the Capital Value minus the value of Improvements and there is a good deal to be said for this commonsense view. However, it has been held by the Courts (Thomas v. Valuer-General) that all three values, that is, Unimproved Value, Value of Improvements and the Capital Value must be arrived at by the Valuer independently. Although it would appear he is permitted to check his results by the sum:-

Capital Value = Unimproved Value + Value of Improvements. The Law states that the Capital Value shall be the market value. It makes no comment as to how value of improvements shall be arrived at but various legal interpretations of the Act have laid down how the Unimproved Value shall be estimated. This involves two procedures:-

- (1) The Valuer must discover the state of the land in its original condition.
- (2) He has to find what the land in that condition would be worth today as if it alone were unchanged and all other factors affecting value were actually in their present condition.

This we submit is a fantastically unreal procedure for several reasons:-

- (1) Without a great deal of historical research it is now impossible in many cases to know what the original condition of the land was.
- (2) As time goes on city, town and countryside change constantly and it will become increasingly more difficult to have any knowledge of the original state of the land.
- (3) The original state of the land and the present day value of land in this state may be completely irrelevant to present day economic facts. For example, land valueless today may originally have contained gold deposits or valuable timbers or land valueless yesterday because of bush sickness may be valuable today because of cobalt. We will return to this point.

It would appear to us that there are three ways at which the Unimproved Value can be arrived at:-

- (1) From the sales of land which at the time is quite unimproved, whether vacant town lots or rural areas.
- (2) In urban areas by the capitalization of ground rents in those cases where the ground has one owner and the improvements another.
- (3) By deducting from the Capital Value the value which improvements give to a property.

Method No. 2., Capitalization, though very valuable where it is applicable, is of restricted use and generally of no use in urban areas. Method No. 1 is still of considerable importance. There is still a great quantity of rural unimproved land and there is some in nearly all local body areas, as has been shown by a number of surveys in recent years. However sales of such land are by no means frequent and it is the record of sales which determine valuations. In nearly all towns and cities there are a considerable number of vacant lots or areas where the improvements are so minimal as to be almost vacant lots. Where land is changing its use say from resident-

ial to commercial use it may have no improvement value at all. To remove a number of derelict houses to make way for a factory is analogous to clearing scrub in farming operations. For residential purposes this land has improvements, for commercial purposes it has none. It is unimproved. Similarly farm land which as farm land is well improved is unimproved as residential land. There is, therefore, more totally unimproved land coming up for valuation than might at first be realized and this method remains of considerable importance and value still.

Nevertheless it is probable that Method No. 3 will be of increasing importance as time goes on and it seems to us that this method should not be expressly forbidden to the Valuer as the Courts have told us it is now.

IT SHOULD BE BORNE IN MIND THAT THE PURPOSE OF ESTIMATING THE VALUE OF LAND APART FROM THE IMPROVEMENTS IS SO THAT THE IMPROVEMENTS MAY BE EXEMPTED FROM TAXATION.

We feel that the obvious thing to do in many instances is simply to deduct from the composite value the value added by improvements leaving a taxable residue which is the Unimproved Value. There should not be any need to have an analysis of this residue as to its content and nature and no Valuation Court should be required to determine it by rules which lead to absurdity in practice.

What alteration would be necessary in the Valuation of Land Act to make this third method permissible we do not venture to say with any certainty. No where does the Act expressly state that the Capital Value is equal to the sum of the Unimproved Value plus the value of Improvements. We think that if this fact implied by the definitions were expressly stated that it would be permissible for the Valuer to arrive at the Unimproved Value by deducting from the Capital Value the added value due to improvements.

Section 32 Maori Reserved Land Act 1955 specifically states that the Capital Value must equal the sum of the Unimproved Value and the value of improvements.

2. THE PROCEDURE FOR VALUING INVISIBLE IMPROVEMENTS OR IMPROVEMENTS WHICH MERGE IN THE LAND.

The foregoing discussion bears on the question of the valuation of improvements which merge in the land. Now these are of two kinds:-

(a) Those which occur in the sub-division of urban land that arise when a block is sub-divided, roaded, provided with footpaths, drains, etc. by a development company. The value of each individual section put up for sale has been enhanced by the improvements carried out on the block as a whole. It has been decided (*Broadways Ltd. v. Valuer-General*) that the unimproved value of each section should be arrived at by taking the Unimproved Value of the undeveloped block and dividing it by the number of sections. Any value which the sections have on the market over and above this amount is improvement value. Now this decision gave rise to anomalies in taxation especially in Hutt City and as a result an amendment to the Valuation of Land Act was passed which is now incorporated in the Statute. This provided that as soon as such a site was sold the improvement value disappeared and the whole of the site value became Unimproved Value.

(b) There is a second class of improvement which merges in the land, such as clearing of bush, the draining of bog, levelling etc. In time unless one has a knowledge of its previous condition, such improvements are quite indistinguishable from the land. We would advocate that the value of such improvements should under certain circumstances merge into the Unimproved Value. As long as the land remains in the occupation of the original improver he should be able to deduct the value of such improvements from his apparent Unimproved Value, for say a period of twenty years. If, however, he were to sell his land then the hidden improvements should immediately become part of the Unimproved Value. When he sells the land he sells his improvements with it and gets his reward. It is unjust that he should be able to sell as well a permanent rebate in taxation.

Take for example two building sites which are exactly comparable excepting that one is level and the other has a huge hole in it. For the level section A pays £100 and for the other B pays £75. With the application of labour and possibly some expense B fills in the hole on his land until it is quite indistinguishable in quality from that of A. The Unimproved Value of A's land is £100 and of B's £75. A pays £1 in rates and B 15/-. That is, B gets a rebate of 5/- a year for his reward for doing a good social thing, viz. improving his land, and he enjoys this reward under our proposal for a period of twenty years. If however, he sells his land he will receive £100 for it, that is, he sells his improvement for £25 and he is thus completely compensated for his original outlay in effort or money. It is not right that he should also be able to sell a tax rebate of 5/- per year for an indefinite period. This rebate should disappear when the land is sold. For this reason we think that not only expediency but also justice demands that improvements of this character should merge in the Unimproved Value when the land is sold or after a given period. In Denmark such improvements merge after a period of thirty years. Until that time has passed the value of improvements is deductible from the Unimproved Value but only if the cost of making them has not been recouped in an increased return due to the improvements.

(c) One improvement in this class has been singled out for special treatment by the Valuation of Land Act. That is land reclaimed from the sea. Any value added to land by reclamation is forthwith a part of the Unimproved Value. We would have such an improvement treated like other invisible improvements, i.e. the added value would merge in the Unimproved Value after twenty years or sale or lease.

3. THE FURTHER APPLICATION OF THESE PRINCIPLES

URBAN LAND The complete application of this principle to urban land would be very simple.

(a) In the case of improved values added by suburban divisions the principle already applies in fact.

(b) In the case of land reclaimed from the sea the principle applies already much more fully than we think it should in that such added values merge immediately in the Unimproved Value.

(c) In the case of filling and levelling on residential and commercial sites it could be applied very simply. The real difficulties arise in applying the principle to rural land.

RURAL LAND In our view value added to land by felling bush, clearing scrub, draining bog, adding lime and cobalt and such other invisible improvements which merge in the land should, in the circumstances we have indicated, become a part of the Unimproved Value (a) on sale or lease (b) after a period of twenty years. This is the procedure adopted in practice in Denmark where problems of land valuation and land value taxation have received a tremendous amount of study.

We will not attempt to detail the changes in the Act which would be needed to give effect to this enlarged concept of Unimproved Value. This a highly technical matter and not one which lends itself to simple discussion.

We have indicated above why we consider that convenience and also justice demands this change in the law and would like to emphasize this aspect by some further examples.

Example 1. Consider an area covered with manuka and scrub. Its value is say £100 and as there are no improvements this is its Capital and its Unimproved Value. The owner clears the scrub, deep ploughs the land, applies lime and cuts a drain. He erects fences and gates and plants a shelter belt. It is now worth £600.

Unimproved Val. = £100 + Val. of Improvements £500 = Capital Val. £600.

At present this land will be rated for ever on £100 Unimproved Value. If it is sold the owner not only sells all his improvements and gets full value for them but he sells also a permanently low rateability. This we consider unjust. After sale we would advocate that value added by fertilizing and grassing etc. should merge in the Unimproved Value. Fences, gates, drain and shelter belt do not merge but only such factors as bring the land to what the Danes call "a normal state of cultivation." Now Capital Value will still be £600 but Unimproved Value will be say £400 and value of improvements £200 and future rates will be based on £400 Unimproved Value.

Example 2. Land north of Rotorua and round Te Puke was bush sick country and its Unimproved Value was very low. It was discovered that bush sickness was due to a deficiency of cobalt. Applying the missing ingredient has made this very productive land and its value has gone from £1 to £50 an acre. Yet its Unimproved Value is permanently low and its low rate liability in perpetuity adds to its market value. We think this is inexpedient and unjust to other ratepayers.

Example 3. The Lands Department clears, ploughs, fertilizes and sows to grass waste pumice land and then leases this land or sells it. At present the Unimproved Value of this land has two components. (a) The value of the land in its original waste condition (b) The Value added by making of roads, the availability of electric power nearness to schools etc. All value due to clearing, fertilizing and sowing to grass is improvement value and it stays so for ever and the Unimproved Value is permanently very low and the rates paid are permanently low. Under the proposed amendment all value due to clearing, fertilizing and sowing to grass would merge and become part of the Unimproved Value as soon as one of the previously mentioned conditions was fulfilled.

The advantages we consider would follow this change are:-

1. It would be simpler in practice to determine the Unimproved Value. It would require no historical research, the original state of the land would become less and less relevant as time passed.
2. It would, on balance, be fairer as between taxpayers.
3. It would make the concept of Unimproved Value more readily understood. It would make good common sense and get away from the unrealities of Unimproved Value as it is at present defined.
4. It would not increase rates but it would undoubtedly cause some alteration in their incidence. It would not penalize improvements or inhibit them. It would preserve all the advantages of rating on the Unimproved Value, make it smoother in operation and would correct some anomalies.
5. Representations have been made to the Commission advocating modifications of the system of rating on the Unimproved Value such as "average value" and some other admixtures with Capital Value rating. In our view these novel systems are most undesirable. We believe that the proposals we are making for an altered concept of the Unimproved Value of rural land will achieve all the effects these proposals are seeking for and yet preserve the advantages of Unimproved Value rating.

4. ONE FURTHER REFORM

We believe that there should be a specific provision in the Valuation of Land Act to provide that the allowing of land to revert to scrub, gorse, or become covered by noxious weeds cannot reduce the Unimproved Value.

The principle of rating on the Unimproved Value is that improvements should bring no penalties and disimprovements should bring no reward.

According to a judgement by S.A. Harlow, S.M. "The Patatanga County v. Valuer-General" the law as it stands embodies this principle.

We believe that it should be specifically stated in the Valuation of Land Act.

SUMMARY OF SUBMISSIONS

1. That rating on the Unimproved Value be made mandatory.
2. That valuations of land be made every two years and of land and improvements as necessary every five years.
3. That municipal trading departments pay income tax.
4. That local authorities be not permitted to transfer profits from trading departments to the general account.
5. That the Crown pay full rates.
6. That the proceeds of the Land Tax be increased and that it should be distributed to local authorities for capital works.
7. That local authorities be empowered to tax future increases in land value.
8. That the method of determining the rents of publicly owned property be altered.
9. That the homeowners' rates be deductible for income tax purposes.
10. That the Rating Amendment Act 1954 be availed of where necessary and that a carefully defined group of non-income tax payers have their rates reduced 20% as of right.
11. That municipalities should get some revenue from licences which have a market value.
12. That local authorities be required to strike a new Capital Works Rate equal to 5% of the total rates struck.
13. That present restrictions on borrowing by local authorities should continue.
14. That under certain conditions the value of invisible improvements should become part of the Unimproved Value.

MORE AND MORE BOOKS ARE BEING PUBLISHED about communities over the world which are increasing their use of RENT-of-land to support government, while reducing or abolishing taxes which fall on the Rewards of Human Effort, directly or indirectly. We are pleased to list some of these books for your information.

Public Revenue Education Council

THE EFFECTIVE ANSWER TO COMMUNISM and WHY YOU DON'T GET it in COLLEGE; by Harry G. and Elizabeth R. Brown. (Dr. Brown is Professor Emeritus of Economics, University of Missouri.) Published by Robert Schalkenbach Foundation, 50 E. 69th Street, New York 21, N.Y. 100 pages - 35¢ post paid.

(Featuring Australian tax-data and analysis of results of the shifting of taxes from improvements to land values. Included is a most vigorous challenge to the greatly restricted and unscientific analysis of land value taxation by many economists, in and out of colleges and universities, some of whom completely ignore the subject. Also, a critical account of how economic science might have been used to prevent the growing emergence of Marxism - of all shades and shadows - into the economic, political and academic life of our country and of the world.)

MUNICIPAL IMPROVEMENT AND FINANCE, by H. Bronson Cowan, New York, 1958. A 40 page (10 1/4 x 14) Graphic Summary, containing many photographs and supplemental data, showing the reasons for and the results of "Untaxing of Improvements and the Taxation of Land Values: The Experience of Cities, Large and Small, in Australia, New Zealand, South Africa, and Western Canada, Using this Method of Taxation. Distributed by Harper and Brothers, New York, N.Y. \$3.00

AN ANALYSIS of the POTENTIAL EFFECTS of a MOVEMENT TOWARD A LAND VALUE BASED PROPERTY TAX. A Case Study of a Possible Application of Law 299, Pennsylvania 1951 to Bethlehem, Pennsylvania: A Research Project Undertaken by the Institute of Research of Lehigh University. By Dr. Eli Schwartz and Dr. James E. Wert. 93 pages - \$1.00. Paper back. Published by Economic Education League, 17 D & H Building, Plaza, Albany, N.Y.

LAND VALUE TAXATION AROUND THE WORLD: Harry Gunnison Brown, Harold S. Buttenheim, Philip H. Cornick and Glenn E. Hoover, Editors. 220 pages, Cloth. Indexed. \$3.00. Robert Schalkenbach Foundation. This book contains most recent information on the status of land-value taxation in Denmark, Australia, New Zealand, South Africa and parts of Canada.

THE SELF-SUPPORTING CITY, by Gilbert M. Tucker. 100 pages - Paper back, \$1.00; Cloth back, \$1.50. Robert Schalkenbach Foundation.

A book that shows how and why "The City Throws Away Its Investments, Resorts to Taxation, and Goes on the Rocks." In terms of today's common phrase it develops clearly and certainly the most ancient, universal, persistent and harmful "government give-away" and shows how this "give away" policy prevents American cities from being "self-supporting".