Land Value Taxation: A Case Study Approach

William J. McCluskey and Riel C.D. Franzsen
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Lincoln Institute of Land Policy
Working Paper

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Lincoln Institute Product Code: WP01WM1

Abstract

This study presents a review of land value tax systems as utilised at the local government level in South Africa, Kenya, Australia, New Zealand and Jamaica.

Developments in New Zealand, and to some extent Australia, seem to indicate that the more developed a country becomes, the greater the pressure to migrate from a site value tax system to some form of capital improved value system. The primary driving forces for change, however, seem to be of a practical rather than a policy nature. Practical realities, for example the paucity of sales data (especially within the urban environment); statutory definitions and legal precedent; access to sophisticated, electronically-driven appraisal technologies ensuring uniformity; regular revaluations; and the effective monitoring of assessment quality) seem more important than theoretical and policy issues, e.g., taxpayers' ability to pay or expenditure-related pressures on a narrow tax base. 'Political' and/or legislative incentives (e.g. limiting site value to current use (South Africa); limiting the use of differential tax rates to capital improved system (Victoria, Australia)) also seem to play a limited but nonetheless important role. The valuation profession in South Africa and Kenya would prefer a change to capital improved value, again because it is more readily defendable and easier to explain to taxpayers.

Despite pressures for change, land value tax systems have been operating successfully in most of the jurisdictions under discussion. Most administrative problems experienced (e.g., in Kenya and Jamaica) revolve around limited coverage, outdated valuation rolls, or collection and enforcement, rather than inherent problems with the land value/site value as tax base.

About the Authors

William McCluskey BSc (Hons), PGD Prop Inv, PhD, FRICS, joined the University of Ulster in 1986 and is presently a senior lecturer in real estate and valuation. He was appointed as visiting professor of real estate at the University of Lodz, Poland in 1996. Prior to joining the University of Ulster he worked with the Valuation Office in London and then the Valuation Office in Northern Ireland where his main responsibilities involved the valuation of all types of property for property tax purposes. His main professional and academic interests are in the fields of real estate valuation and more specifically landed property tax systems, local government finance, computer assisted mass appraisal modelling and the application of geographic information systems. Within this context he has been involved in a number of international projects advising on ad valorem tax issues, including Jamaica, Bermuda and South Africa. He has published widely within the research fields including journal papers, authored books, edited books and has been a plenary speaker at a number of international conferences. Recently his research has investigated the potential application of artificial intelligence and machine learning techniques within the mass appraisal environment.

Contact Information:

William J. McCluskey
School of the Built Environment
University of Ulster
Jordanstown
Co. Antrim
Northern Ireland BT37 0QB
Phone +44 (0)28 9036 6567
Fax +44 (0) 28 9036 6826
e-mail wj.mccluskey@ulst.ac.uk

Riel Franzsen BLC, LLB, LLD, is professor in the Department of Mercantile Law at the University of South Africa. He has authored chapters in various mercantile law text books and has contributed articles on taxation to South African and international journals. He has presented papers on land and property taxation at various international conferences. He is a member of the Advisory Board of the International Property Tax Institute (IPTI) and in June 2000 he was appointed as co-editor of the *Journal of Property Tax Assessment and Administration*, published by IPTI. He was a member of the Subcommittee on Land Tax of the *Commission of Inquiry into Certain Aspects of the Tax Structure of South Africa* (1995 to 1998). On various occasions he also has acted as an adviser to the South African government's Department of Finance and the Department of Constitutional Development and Provincial Affairs on property-related taxes specifically and local government finances generally.

Contact Information:

Riël C.D. Franzsen
Department of Mercantile Law
University of South Africa
PO Box 392
Pretoria 0003
South Africa
Phone +27 12 429 8504
Fax +27 12 429 3343
e-mail franzrcd@unisa.ac.za

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Land Value Taxation: A Case Study Approach

Introduction

This working paper is based on a research project funded by the Lincoln Institute of Land Policy. The paper intends to present a concise analytical review of land value tax systems as utilised in five countries (South Africa, Kenya, Australia, New Zealand and Jamaica) with a view to determining emergent trends and issues. Based on these emergent issues, a number of conclusions are drawn as to the future of land value taxation, its efficacy and its potential as a source of revenue for local government in the various countries.

Land Value Taxation: The Economic Theory

Land according to the economist Ricardo (1772-1823) differs from other factors of production in two important ways. First, it is limited in quantity, both generally and specifically; and secondly, it is a free gift of nature and is not man made. The income derived from any factor of production that has a limited supply is determined by demand and cannot be influenced by the owner of the factor.

The economic justification for land value taxation lies in Ricardo's theory of economic rent. Hence, economic rent is a surplus, an unearned increment. Ricardo was not the first or only economist to consider the taxation of economic rent. Adam Smith (1723-90) and the Physiocrats had already advocated a system of raising public revenue by means of a tax on ground rents and the ordinary rent of land. John Stuart Mill (1806-73) also considered the question of the taxing of future increases in land values. Henry George (1839-97) advocated that the rent of land should be taxed away from the private individual and given to the state, thus allowing the abolition of all other taxes. A tax on land rents would provide the correct incentives for landowners to use their land most productively and would eliminate the need for other taxes.

The doctrine of land value taxation is by its very nature a contemporary statement that taxes are not just a means of providing revenue but perhaps more significant as a means for directing the allocation of resources. The doctrine also recognises that value is socially created and therefore the tax should fall on the surpluses.

The fact that improvements are fixed to the land creates a natural philosophy of considering land as encompassing improvements to the land. However, land and improvements are fundamentally different in terms of origin, need for economic incentives and qualitative and quantitative characteristics such as degree of permanence, scarcity and flexibility of use. As a consequence, the long run effect of an *ad valorem* tax on land differs from a tax on improvements (Becker, 1966). Land value may be described as the monetary evaluation of land use. It is dependent upon both the present and future

use which, in turn, is influenced by the physical and economic characteristics of the site and the social control of land use (Clarke, 1965).

Henry George, advocating a single tax on land, stated the following in his treatise *Progress and Poverty* (first published in 1879):

> 'Wherever land has an exchange value there is rent in the economic meaning of the term. Wherever land having a value is used, by either the owner or hirer, there is rent actual; wherever it is not used, but still has a value, there is rent potential. It is this capacity of yielding rent which gives value to land. Until its ownership will confer some advantage, land has no value. Thus rent or land value does not arise from the productiveness or utility of land... (Book III, Chapter 2)
>
> For this simple device of placing all taxes on the value of land would be in effect putting up the land at auction to whosoever would pay the highest rent to the state. The demand for land fixes its value, and hence, if taxes were placed so as very nearly to consume that value, the man who wishes to hold land without using it would have to pay very nearly what it would be worth to any one who wanted to use it. (Book IX, Chapter 1)
>
> The tax on land values is, therefore, the most just and equal of all taxes. It falls only upon those who receive from society a peculiar and valuable benefit, and upon them in proportion to the benefit they receive. It is the taking by the community, for the use of the community, of that value which is the creation of the community. (Book VIII, Chapter 3).'

George advocated a system of taxation wherein benefits received are interrelated with ability to pay. The value of land and natural resources reflects benefits received from government expenditures, synergistic spillover and the general progress of civilisation. Community created land values ought to be taxed back since these values not only indicate an ability to pay but this is a form of taxation that bears least upon production.

Although the ideas of Henry George apparently influenced the introduction of unimproved value tax systems in Australia and New Zealand (Hornby, 1999), it is not clear to what extent this was the case in other countries where only land value - excluding improvements - is taxed. For example, in Kenya, land-value taxation was introduced because the annual value system in operation at the beginning of the century proved to be inefficient and impractical. Rental evidence was lacking, whereas the market for undeveloped land was active and the need to stimulate development was great (Syagga and Olima, 1996).

Terminology

In any comparative study, and in a multi-national context, it is important to become and remain aware of the pitfalls presented by terminology. On the one hand, identical terms

or phrases may have very different meanings in different countries, whereas on the other hand, different terms or phrases used in different countries, may actually be referring to the same thing.

Generic terms like 'property tax' and 'land tax' may have widely-differing meanings in different countries. For example, in Australia 'land tax' refers to a wealth tax levied by State governments on a taxpayer's aggregate immovable property holdings (urban and rural), whereas, in a South African context, it would refer to a tax on immovable property situated outside urban municipal boundaries (Katz, 1995; Katz, 1998). 'Property tax', in some jurisdictions may include movable or intangible property, and in other jurisdictions refer to all taxes with property as primary taxable object - including property transfer taxes.

Not surprisingly, specific terms such as 'unimproved value', 'site value' and 'land value', may also have different meanings in different jurisdictions. This is generally the result of specific statutory definitions and their interpretation by the courts within different jurisdictions. In the light of subtle and less subtle differences regarding the meaning of some of these terms, it would be prudent for the purposes of this study to define - with reference to each jurisdiction referred to - the meaning of 'site value', 'unimproved value', 'improvements', 'land value', etc., (see Table 1).

Bearing in mind that there are differences as regards the exact meaning of 'unimproved land value' among and even within (e.g. Australia) the various countries, in this study the term 'land value tax' refers to a tax on immovable property that excludes buildings from the tax base. However, improvements that 'may have merged with the land' (e.g. clearing, levelling, filling, etc.) are generally included within the tax base.

Unimproved value differs from site/land value only in so far as the improvements on or appertaining to the land that are to be disregarded include the 'invisible improvements' that have *merged* with the land. Under the definition of unimproved value, the legislation requires the valuer to identify the various improvements that have now become 'invisible' and to determine and discard the value they would add to the subject land. From a valuation perspective valuing land in its native, virgin condition at current market values is almost, if not, completely impossible. To rectify this unreal situation most definitions of unimproved value have been amended so as to include as part of the value of the land those 'invisible improvements' that have merged with the land and have become part of the true land surface. There is no doubt that there are a number of improvements which in time become quite indistinguishable from the land, nor is there any doubt that the value added by such improvements should merge in the site or land value. It is obviously a matter of some importance to endeavor to indicate clearly what these improvements are. Generally speaking an improvement that is to be considered as merging with the land has three distinct characteristics:

- The improvement is permanent and irreversible;
- The improvement requires no or little maintenance; and

- The improvement is invisible, in that, after a certain period of time no one would be able to detect from observation that the land has been 'improved'.

In the case of rural land used for agricultural production, the application of unimproved value gave rise to a number of anomalies in cases where the land had been improved such as by the clearing of timber many years ago. Such land had to be valued as if it were in virgin condition: but other land used for similar purposes which was treeless in its original natural condition would be valued at a higher figure, notwithstanding that the agricultural productivity of both lands would be the same. It was anomalous, therefore, that one parcel of land should carry a higher burden of rating than the other one, simply because of the original natural condition at some time long since past.

In most of the countries and states the approach adopted in determining the invisible improvements which have merged with the land is to specifically list them in legislation (e.g. Western Australia, Victoria, New Zealand, Jamaica). Such invisible improvements would include the clearing of land from timber, scrub, other vegetable growths, stones, improvement of soil structure and soil fertility, restoration or improvement of the land surface, reclamation of land by filling, draining, use of retaining walls (see Appendix 1). The adoption of site/land value in place of unimproved value was effectively forced on rating authorities as a matter of necessity because the task of the valuer often became one of almost fictional assessment. Trying to identify the state of the land in its original state usually at a time before any valuation techniques were adopted was something of an interesting if not impossible task. The inexactitude of this process is one that is so unrealistic that practical considerations of valuing and rating systems required that it should be replaced by a system of site/land value (Else-Mitchell, 1984). Whilst the adoption of site/land value is not universal (see, for example, Queensland), there is general support for its use within the selected countries.

Table 1: Terminology within the selected countries

	Statutory Term for Land Value Tax Base in the Respective Jurisdictions	**Defined Meaning**
South Africa	'Site value'	Site value
Kenya	'Value of unimproved land'	Site value
Northern Territory	'Unimproved capital value'	Site value
Western Australia	'Unimproved value'	(i) Site value (townsite land) (ii) Unimproved value (rural land)
Queensland	'Unimproved value'	Unimproved value
Victoria	'Site value'	Site value
New Zealand	'Land value'	Site value
Jamaica	'Unimproved value'	Site value

PART I: Brief Overview of the Selected Countries

Reasons for Selecting these Countries

Obviously the first reason for choosing (at least) these five countries, is the fact that some form of 'land value tax' is levied within each country. The reason(s) why these countries levied, or still levy, land value taxes will be discussed with respect to each country individually. Although there are other countries also utilising land value taxes for example Barbados, Zimbabwe, Fiji, Thailand and Estonia (see Andelson, 1997; Bahl, 1998; McCluskey and Williams, 1999), funding and time constraints necessitated a selection. The following factors influenced the selection of the chosen countries:

- Existing knowledge based on past or ongoing research (South Africa and Jamaica);
- Developed (Australia and New Zealand) versus developing (Jamaica, Kenya and South Africa) countries;
- Geographically small (Jamaica and New Zealand) versus medium-sized (Kenya and South Africa) and large (Australia) countries;
- Countries with tax jurisdictions ranging from densely populated metropolitan areas to large, sparsely populated rural municipalities (Australia and South Africa);
- Countries utilising only a land value tax system (Jamaica and Kenya) and countries where both land value and improved capital value tax systems are utilised (Australia, New Zealand and South Africa);
- Countries (or States) that underwent recent local government reforms (New Zealand, Jamaica and Victoria, Australia), or is still undergoing such reforms (South Africa); and
- Countries with a long history of utilising land value taxation (all five countries).

It was hoped that with such a broad-based selection, it will be possible to provide answers to questions such as:

- Can land value taxes keep track with the times (increased levels of development, and the political, social, assessment feasibility and economic changes brought along by the passage of time)?
- Can a system of land only based taxation generate sufficient revenue to meet the requirements of an ever-increasing need to provide more public based services?
- What are the pressures being exerted on land value systems to migrate to a capital improved basis?
- How adaptable are land value taxes to developments in the sphere of property assessment, especially computer assisted mass appraisal (CAMA)?

Although all five countries are former British colonies, this does not, by itself, explain the introduction of land value taxation in these countries. To some extent the young

developing countries embraced land value as an attempt to encourage development and to reduce land speculation. There was a tendency for these ‘colonies’ to adopt in the first instance the English system of annual rental values. However, this basis was largely inappropriate as the evidence on rental values was extremely limited whereas evidence of undeveloped land sales was more abundant.

Basic Statistics and Facts (Size, Population, Levels of Government, Number of States/Provinces and Local Governments)

In Table 2 a brief synopsis of important demographics about each of the chosen countries are provided:

Table 2: Basic statistics: All countries

Country	Size in km^2	Population	Gov. Levels	States/Prov	Local Gov.[1]
Australia	7,682,300	18.6 million	3	6 states, plus 2 territories	68 (NT) 129 (Qld) 78 (Vic) 144 (WA)
Jamaica	1,426	2.5 million	2	—	13
Kenya	582,646	21 million	3	8 provinces	148
New Zealand	268,704	3.8 million	2	12 regional councils	74
South Africa	1,123,820	38.0 million	3	9 provinces	843

1 For Australia only the Northern Territory and the three states to be discussed below, have been stated.

Property-related taxes

A range of property-related taxes (i.e. taxes with immovable property as the primary taxable object) are levied in each country as set out in Table 3.

Table 3: Property related taxes currently levied

Taxes	South Africa	Kenya	Australia				New Zealand	Jamaica
			NT	WA	Qld	Vic		
Rates (Urban)	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Rates (Rural)	No	No	No[3]	Yes	Yes	Yes	Yes	Yes

Transfer Tax[1]	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Land Tax[2]	No	No	No	Yes	Yes	Yes	No	No

1 Property transfer taxes are all levied on capital improved value (CIV) and are levied by national or state governments—i.e. none of these are local government taxes.
2 'Land tax', in an Australian context, refers to a wealth tax levied by all of the Australian States—i.e. it is not a local government tax.
3 Rural land is taxed in the Shire of Litchfield—as an exception.

Table 4: Type and maximum tax rates of property transfer taxes

Tax	**South Africa**	**Kenya**	**Australia**				**New Zealand**	**Jamaica**
			NT	**WA**	**Qld**	**Vic**		
Stamp Duty	No	Yes 4%	Yes	Yes 4.85%	Yes 3.75%	Yes —	Yes —	Yes 5%
Transfer Duty	Yes 10%	No	No	No	No	No	No	Yes 7.5%
VAT	Yes 14%	No	Yes 10%	Yes 10%	Yes 10%	Yes 10%	Yes 12.5%	No

As these property transfer taxes (see Table 4) are levied by national or state levels of government, they are not considered as regards this study. Suffice to say that the high levels of these taxes in some jurisdictions, may have a direct or indirect impact on local government property taxes. As high transfer taxes may result in under declarations as to the value of properties and/or the informal transfer of tenure rights, local government property tax systems may be undermined (Bahl, 1998). Jamaica is a good example in point (Lyons and McCluskey, 1999).

The land taxes levied by the individual states of the Australian Commonwealth are also not discussed, although they are based on unimproved or site value—as these taxes are not local government sources of revenue. It is noteworthy, however, that tension is noticeable in some Australian states between organised local government and state governments in relation to immovable property as a taxable object. The difficulties pertaining to the appropriation of Commonwealth grants necessitate the states to exploit their available and traditional own sources of revenue to the fullest extent. Local governments, on the other hand, argue that they only have the property tax as an own source of tax revenue and that by increasing their dependence on the land tax, states are interfering with their only tax base. Traditionally and universally, property tax is the most important own tax instrument available to local governments internationally (Bahl and Linn, 1992; Bahl, 1998; McCluskey and Williams, 1999). This is also true for all five the countries covered in this study.

Sources of Local Government Revenue

Table 5: Local government sources of revenue

Revenue Sources	**South Africa**	**Kenya**	**Australia**				**New Zealand**	**Jamaica**
			NT	**WA**	**Qld**	**Vic**		
Property Tax	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Other Own Taxes	Yes	No	No	No	No	No	Yes	No
Fees, User Charges	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Fiscal Transfers	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes

In all five countries property tax is the most important own source of *tax* revenue. The different property tax bases utilised are reflected in Table 6.

Table 6: Tax bases presently utilised for local government rating purposes

Tax Base	South Africa	Kenya	Australia				New Zealand	Jamaica
			NT	WA	Qld	Vic		
SV	Yes	Yes	Yes	Yes	No	Yes	Yes	Yes
UV	No	No	No	Yes	Yes	No	No	No
CIV	Yes	No	No	No	No	Yes	Yes	No
GRV	No	No	No	Yes	No	No	No	No
NAV	No	No	No	No	No	Yes	Yes	No
FR	No	No	Yes	No	No	No	No	No
SV + I	Yes	No	No	No	No	No	No	No

CIV: Capital improved value
FR: Fixed rate (or 'flat rate') - irrespective size or value
GRV: Gross rental alue
NAV: Net annual value
SV: Site value (= 'land value' (NZ) and 'capital unimproved value' (NT))
SV + I: Site value and the value of improvements, but at separate tax rates
UV: Unimproved value (i.e. as if in its virgin state)

PART II: The Land Value Tax Systems in the Five Countries

In this part an overview of the property tax system(s) within each of the five countries is given, with specific emphasis on land-value tax systems. The applicable system(s) is (are) then evaluated against the following criteria (Kelly, 1998):

- *Coverage ratio*, i.e. the amount of taxable land actually captured in the fiscal cadastre, divided by the total taxable land in the taxing jurisdiction (measuring the completeness and accuracy of the property information in the valuation roll);
- *Assessment (valuation) ratio*, i.e. the value on the valuation roll divided by the real market value of the properties on the valuation roll (measuring the accuracy of the overall valuation level);
- *Tax rate ratio*, i.e. the average tax rate used in the taxing jurisdiction (measuring the amount of tax per value of property);
- *Collection ratio*, i.e. the tax revenue collected over the total expected tax liability budgeted for the financial year (measuring the efficiency of the revenue collection).

Finally, some important policy and practical issues, as well as the future prospects are discussed in relation to each of the countries (or states) discussed.

South Africa

Origin and Historic Development

South Africa is a large and diverse country. Although major constitutional, economic and social changes have taken place since the first democratic elections were held in April 1994, the country will be burdened by its apartheid and colonial legacy for generations to come.

Land-related taxes date back to 1677. Transfer duty, which is still levied today, was introduced in 1686. In its modern guise property tax (referred to as ‘rates on property’) has been levied since 1836 in the former British colony of the Cape of Good Hope (Franzsen, 1999). It is levied in terms of provincial legislation (dating from the pre-1994 constitutional dispensation) in each of South Africa’s nine provinces. After the establishment of the Union of South Africa in 1910, the principal form of municipal rating used was based on capital improved value (Dunkley, 1997). In 1912 a Provincial Commission was set up in the Transvaal to investigate rating. The recommendation of this Commission was that rates should be levied on the site value of land. In 1916 land value taxation was introduced in the old Transvaal province, apparently to stimulate property development and to counter land speculation. The Transvaal Ordinance was to act as the model or template for much of the rest of the country. Differentiation in the levying of rates between land and buildings became possible in the former Cape of Good

Hope and Natal provinces in 1917 and 1925 respectively (*Durban Corporation and Another v Lincoln* 1940 AD 36).

Local Government Structure

Local government in South Africa has undergone dramatic changes since 1994 and is presently still in a transitional phase. From a property tax perspective it is important to draw a distinction between metropolitan and non-metropolitan areas. In metropolitan areas so-called metropolitan local councils (the primary tier of a two-tier metropolitan government structure) levy and collect 'rates on property' (i.e. property tax). In non-metropolitan areas only urban municipalities (i.e. secondary cities, towns and villages) presently levy rates on property. Rural land is not taxed.

After the December 2000 local government elections, the present 843 municipalities in South Africa will be replaced by 284 newly-demarcated municipalities. Within metropolitan areas the two-tier structure will be replaced by single metropolitan municipalities (so-called 'uni-cities'- Cape Town, Pretoria, Johannesburg, Durban, East Rand and Port Elizabeth). A two-tier structure will be retained in non-metropolitan areas. However, the secondary-tier district municipalities will be the only form of local government in sparsely-populated rural areas demarcated as 'district management areas' (Franzsen and McCluskey, 2000). Within each district municipality will be one or more 'local municipalities'. A local municipality will typically consist of one or more towns with its/their surrounding hinterland, i.e. consisting of urban and rural properties. The property tax base will therefore extend to rural properties.

Present Status of Land Value Taxation

Property tax is the most important own source of tax revenue (representing approximately 60%). With municipal income from traditional trading services (especially the provision of electricity) set to become less important, and property tax being a constitutionally guaranteed source of own revenue, the importance of property tax is on the increase. In the former Cape Province a form of rural property taxation was abolished at the end of the 1980s (when so-called regional services councils were established country-wide).

There are three property tax systems presently in South Africa. Generally municipalities are free to choose from:

- Site rating (i.e. a property tax with its base, the unimproved value of land);
- Flat rating (i.e. a property tax with its base, the capital improved value); or
- Composite rating (i.e. a property tax taxing the unimproved value of the land at one (higher) rate and the improvements at another (lower) rate).

Of the some 500 urban municipalities about one third utilise site rating (Bell and Bowman, 1998). Site rating is predominant in Gauteng, Mpumalanga, the Northern

Province and North West, flat rating in the Eastern Cape, Northern Cape and Western Cape and composite rating in the Free State. In KwaZulu-Natal both site rating and composite rating are used extensively (in comparison to flat rating)(Bell and Bowman, 1998).

Nature of the Property Tax

Table 7: Synopsis of the local government property tax legislation

Taxable object	All urban land, irrespective of zoning
Tax Base	Municipalities can generally decide on any one of 3 options: site rating (land value only); flat rating improved value); or composite rating (land and also improvements, but at separate tax rates)
Taxpayer	Owner of rateable land
Method(s) of Assessment	Land: Comparable sales, or other suitable method(s) Improvements: residual value (i.e. capital value minus site value) in most provinces
Assessment	Only registered values (in-house or outsourced); no overarching quality control 3 values for each property required (except in the Western Cape and KwaZulu-Natal)
Valuation cycles	4-5 years
Objections and Appeal Procedures	Appeal procedures vary among provinces; no legislative scope for informal dispute resolution (before a formal objection)
Tax Rates	Uniform tax rates set annually, with almost no 'direct' differentiation
Exemptions	Very few, e.g. state-owned land is rateable
Rebates	Rebates for residential properties ('indirect' differentiation) apply in most jurisdictions; Additional relief for hardship cases (e.g. low income, pensioners, etc.)
Collection	Lump some or monthly instalments (for residential properties)
Enforcement Procedures	Interest payable on arrears Clearance certificate required before any formal transfer Seizure and public sale (after 3 years)

Valuation Issues

Valuations for rating purposes can presently only be undertaken by valuers registered in terms of the Valuers' Act of 1982. Before the Local Government: Municipal Structures Act was amended in October 2000 (as an interim measure until the Local Government: Property Rates Bill is passed into law), legislation effectively ruled out the use of computer assisted mass appraisal - as a physical inspection of each individual rateable property was required under provincial legislation.

The larger metropolitan local councils (e.g. in Cape Town, Johannesburg, Durban and Pretoria) and some of the secondary cities (e.g. Port Elizabeth, East London and Potchefstroom) have their own in-house valuation departments responsible for the

preparation of general and supplementary valuation rolls. The remainder of the urban municipalities use private sector valuers to prepare their valuation rolls. Rural properties are not presently assessed.

In August 1999 there were approximately 2,000 registered valuers, associate valuers and valuers in training (Franzsen and McCluskey, 2000). Only a small percentage of these valuers actually do municipal valuations for rating purposes. Apart from the formal objection and appeal procedures, there are no legislative quality control measures in place to monitor and report on the quality of valuation rolls generally and to ensure equity and consistency in municipal valuation across the country (Franzsen and McCluskey, 2000).

In terms of the former Transvaal Local Authorities Rating Ordinance (1977), applicable in four provinces, 'improved value of land' is defined as 'the amount which such land... would have realised if sold on the date of valuation in the open market by a willing seller to a willing buyer'. The 'site value of land' is arrived at in a similar manner, 'but on the assumption that the improvements, if any, had not been made'. The value of improvements is the residual value, i.e. what remains when the site value is deducted from the improved value.

In most provinces the valuation roll has to reflect all three values (i.e. site, improvements and improved value), irrespective of the value(s) used as the tax base.

Overall Performance (Coverage, Assessment, Tax and Collection Ratios*)*

Coverage ratio: Where property tax is levied, the coverage ratio is generally excellent. However, presently only urban land is rated. Some urban municipalities are still struggling with the extension of the property tax to black townships.

Assessment ratio: Only a few municipalities are not keeping to the statutory valuation cycles. Cape Town, for example, is still using the 1979 valuation roll. The accuracy and quality of valuation rolls are not at present independently monitored and evaluated.

Tax ratio: Tax rates are set annually by the municipalities, and may vary dramatically (depending on the base utilised, the expenditure needs and the date of the last revaluation). No research to date has been done on the range of effective tax rates between municipalities. It is generally accepted, however, that tax rates could still be increased in some jurisdictions.

Collection ratio: On average collection levels are high. However, as part of the legacy of the racially segregated municipal dispensation operative during the apartheid era, it may vary substantially within some jurisdictions. In certain former black townships, collection levels are extremely low (less than 40%). Improper billing, lack of administrative capacity, a persistent culture of non-payment (used as an effective political tool between 1986 and 1994), a lack of services, a lack in political will to

enforce, and the inability to pay, are just some of the reasons given for low collection levels.

Revenue and Non-Revenue Policy Issues

The importance of property tax as a revenue source for the four largest metropolitan local government areas is illustrated in the Table 8.

Table 8: Importance of property tax as a revenue source for metropolitan local government (in millions of Rand)

	Property tax	**RSC levies**	**Income from bulk services**	**Grants and subsidies**	**Other**	**Total**
Johannesburg	1,539	645	3,959	430	353	6,926
Cape Town	1,258	299	2,592	157	1,264	5,570
Durban	1,013	247	2,493	128	1,246	5,127
Pretoria	906	266	2,978	257	474	4,881

Source: Budget Review, 1999

It is debatable whether the present number of registered valuers in South Africa will be able to cope with the extension of the tax base to rural land, the demarcation of new municipal boundaries and the resultant need for new valuation rolls, and the use of new valuation techniques (e.g. CAMA) and methodologies (Marten, 1999; Franzsen and McCluskey, 2000). The Property Rates Bill clearly states that only persons registered as valuers in terms of South African legislation may prepare municipal valuation rolls.

The Future of Land Value Taxation in South Africa

Government seems ambivalent as far as the preferred tax base is concerned. Although the current wording of clause 5 of the Property Rates Bill suggests that capital improved value is the preferred choice, the Bill still provides for the retention of the current three tax bases (as well as local government choice in this regard). Various interest groups, amongst these the South African Council of Valuers, are in favour of taxing improvements. It is argued that a system, which also taxes improvements, relates better to a taxpayer's ability to pay, and is perceived to be more equitable.

The Bill (clause 33(1)(b)) presently states that:

> 'the site value of property must be determined as an amount equal to what the property would have realised if sold on the date of valuation in the open market by a willing seller to a willing buyer, but on the assumption that:
>
> (i) there are no improvements on the property; and

(ii) only the existing improvements may be erected on the property.'

This implies that the principle of 'highest and best use' is not embraced in the context of site value. What is being assessed is current use. Should it be enacted without amendment, this limitation of the tax base will probably play a significant role in a municipal council's decision regarding a proper tax base. It must therefore be concluded that the future of site rating is not absolutely secure. However, the Bill is still to be debated in Parliament and discussed at public hearings before the Portfolio Committee on Local Government.

Kenya

Origin and Historic Development

Kenya's population is 21 million people of which approximately three million live in the capital city, Nairobi. Kenya has a three-level system of government (central, provincial and local), although the eight provinces have very few powers and functions. Like many other developing countries, Kenya has a highly centralised economy (Omamo, 1995).

The property tax (rating) system in Kenya was introduced early in the 20th century. It spread from South Africa to Rhodesia and from there to the three British East African colonies of Kenya, Uganda and Tanganyika (now Tanzania). Mombasa (in 1900) and Nairobi (in 1901) introduced a rating system based on annual rental value (Ayiecho, 1996; Konyimbih, 1995; Syagga, 1994). In 1908 all townships in Kenya were empowered to introduce a rating system. However, annual rental value was found to be inadequate and inappropriate and replaced (in 1908) by flat rating. A lack of rental evidence and vast tracts of undeveloped land necessitated a change. The English system was 'unsuitable for introduction in the new growing townships' and therefore, in the early 1920s, site rating was introduced - following the example of Australia and New Zealand (Syagga and Olima, 1996). The early Kenyan legislation was based on the 1916 rating ordinance of the former Transvaal province of South Africa (Olima, 1999). In 1920 unimproved site value (USV) was recommended and subsequently introduced (Konyimbih, 1995).

In 1921 it was decided to use unimproved site rating in Nairobi (Rating of Unimproved Site Value Ordinance 1921). This Ordinance became operative in 1923 when the first valuation roll for Nairobi was prepared. The Ordinance was repealed in 1956 with the passing of the Local Government (Valuation and Rating) Ordinance, whose aim was to establish a uniform rating system for all municipalities established under the Municipalities' Ordinance of 1955 (Ayiecho, 1996). The 1956 ordinance set out the basic procedures for a site value rating system and eventually resulted in the promulgation of the Valuation for Rating Act 1956 (Cap 266) and the Rating Act 1963 (Cap 267). In 1956 a single rating law was promulgated for the whole country. Unimproved site value was introduced for the following reasons (Gachuru and Olima, 1998):

- It would encourage (at least not discourage) land development and the expansion of the small, little-developed towns;
- It would prevent (or at least discourage) large land holdings for speculative purposes, especially by absentee landlords;
- It was easy and simple to administer, especially with a limited number of trained valuers.

One could add, that, at the time of introduction into Kenya it was apparently working well in the countries referred to (e.g. South Africa, Australia and New Zealand).

Local Government Structure

Kenya has five categories of local government, namely city councils, municipal councils, town councils, county councils and urban councils. The number of councils have been increasing steadily in recent years (Gachuru and Olima, 1998). A feature of many councils was a dramatic extension of boundaries to include land of a predominantly rural character (Omamo, 1995). The extension of boundaries coupled with a steady increase in the urban population (6.5% pa) have resulted in a serious increase in the responsibilities of local government to provide infrastructure and basic services. The result was that by 1996/97 municipal expenditure (growing by 23.5% pa) exceeded municipal revenue (growing by 12.5% pa) for the first time (Gachuru and Olima, 1998).

There are 148 local governments in Kenya, classified as follows:

- 1 city council (Nairobi);
- 34 municipal councils;
- 33 town councils;
- 26 urban councils; and
- 54 county councils (rural councils).

There are also 62 central government administrative districts (planning districts), responsible for integrated planning and, in the majority of cases, with the same boundaries as the county councils. The one city council and 34 municipal councils are responsible for the provision of primary education and health services.

Urban councils are generally small (fledging) towns and are located within, and are subsidiaries of, the county councils. They have no rating powers and do not act as planning authorities. The city council, town councils and the (independent) county councils are the only rating authorities.

Most of the planning is done by the central government administrative districts. These districts fall under the supervision of the Minister of Local Government. In practice the Minister has to approve almost everything. The national department is unable to supervise the rapid growth of local government adequately. Statutory insistence that the Minister of Local Government must personally be involved in certain local government

affairs, complicate matters. The result is often that the Minister cannot approve or disapprove municipal budgets within the statutory period for such approval/disapproval (Omamo, 1995).

There are also so-called district development committees, chaired by a central government commissioner. All the national ministries (line functions) are represented on these committees. In reality, almost all of the decisions and prioritization regarding local government are taken by the central government. As many of the municipal councils are in opposition hands, politics unfortunately play a major role in the prioritisation of spending at the local government level.

The city of Nairobi is a province, a planning district and also the only city council.

Generally local revenue sources tend to be inflexible, not being able to cope with increased responsibilities due to the growing urban population and boundary extensions. Municipalities rely heavily on the income from service charges and locally-administered taxes. The property tax is an especially significant source of own revenue.

Presently there are the following sources of revenue:

- Rating (i.e. property tax);
- Licence fees (e.g. permits to carry on certain trades, businesses and occupations);
- Rents (e.g. council housing);
- Local authorities service charge (a form of income tax) – presently (in 2000) being phased out;
- Fees and service charges (for facilities provided or services (e.g. water) provided);
- Cess on agricultural produce;
- Royalties on natural resources within the local authority area;
- Grants (*ad hoc* - as a formal grant system is not in place).

The five most important sources are: property tax, licence fees, the service charge, user charges and government grants. Property tax represents approximately 30% of total revenues (Omamo, 1995). In rural areas the present system of agricultural cess (agricultural income tax) is fairly important, contributing approximately 40% towards expenditure needs of rural local authorities.

Present Status of Land Value Taxation

All municipalities (i.e. city council, municipal councils and town councils) and county councils are declared as rating authorities under The Rating Act and under section 3 of the Valuation for Rating Act a rating authority is empowered to levy rates to meet the responsibilities to be discharged out of the general rate fund.

All of the rating authorities in Kenya presently utilise site rating, i.e. a land value tax although legislation in principle provides for area rating, an agricultural rental value or

the possibility to also tax improvements (Ahene, 1997). Soon after the new rating legislation for Kenya was enacted, rating contributed substantially to annual local revenue. However, presently the yield is low and generally on the decline. Collectively, as a source of revenue for municipal councils, its contribution has declined from 32.7% in the 1990/91 financial year to 24.8% in the 1994/95 financial year (Konyimbih, 1995; Syagga and Olima, 1996). Gachuru and Olima (1998) states the average as 29%. It is however generally accepted that with better management of all aspects of the rating systems, the revenue yield could increase substantially.

From the perspective of Kenya site rating is perceived to have certain advantages (Konyimbih, 1995; K'Akumu, 1999):

- It discourages land speculation and land hoarding;
- It encourages development of land;
- It is administratively simple;
- It generates an ascertainable amount of revenue as all rateable plots are rated, regardless occupation;
- Land is tangible;
- Annual value rating and the rating of improvements may lead to revenue fluctuations which may affect municipal budgeting adversely.

Site rating, however, also have disadvantages (Konyimbih, 1995):

- It does not properly reflect ability-to-pay;
- It does not provide sufficient revenue potential in heavily developed areas (e.g. Nairobi's CBD).

Nature of the Property Tax

Table 9: Synopsis of the local government property tax legislation

Taxable Object	Land, except land used for roads, streets, car parks, squares, parks (vested in a local authority), public land
Tax Base	Area rating (rural areas); or agricultural rental value rating (rural areas); or site rating (combined with an improvement rate) In practice, site rating only
Taxpayer	Owner
Method(s) of Assessment	Comparable sales, or any other suitable method
Assessment	Only registered valuers 3 values required for each parcel

Valuation Cycles	5 years (recently changed to 10 years—see Kelly, 1998) or such longer period as may be approved by the Minister for Local Government; in practice: on average, 15 years

Table 9 (continued)

Objections and Appeal Procedures	Objections as to the inclusion or exclusion from the roll, or the value of a property may be lodged to a valuation court; Appeals are heard in the High Court or a subordinate court in certain cases
Tax Rates	Uniform rates 'struck' locally. If it is in excess of 4% of the unimproved site value, ministerial approval is required; In practice: high nominal rates, due to outdated valuation rolls
Exemptions	Some properties are exempt from valuation (as opposed to assessed properties being exempted from rates), e.g. hospitals and churches
Rebates	1% on the rate for residential properties and 3% for agricultural land in Nairobi
Collection	Annually; discount for early payment (max: 5%) in Nairobi
Enforcement Procedures	Interest on arrears; recovery from tenants and occupiers Sale in execution of rateable property

Valuation Issues

The Valuation for Rating Act 1956 provides for the following bases:

- area rating (rural areas), based on the size and use of the land;
- agricultural rental value rating (rural areas); and
- site value rating in combination with an improvement rate.

The area rate is a flat rate or graduated rate dependent on the size of land, or a differential flat/graduated rate dependent on the land's actual or potential use. Area rating is only applicable in rural areas.

Section 4(1) of the Rating Act states that only one base may be applied in any one rating area. Unimproved site value is presently used by all councils. Not a single council uses area rating and no council has yet introduced the improvement rating for which the Act makes specific provision (see s.4(1)). Although not excluded from the tax base in principle, agricultural land is not presently taxed (K'Akumu, 1999).

The Valuation for Rating Act (Cap 266) defines 'value of unimproved land' to be '...the sum which the freehold in possession free from encumbrances therein might be expected to realise at the time of the valuation if offered for sale on such reasonable terms and conditions as a bona fide seller might be expected to impose, and if the improvements, if any, had not been made, due regard being had, not only to that particular land, but also to

other land of similar class, character or position... and to any restrictions imposed on the land, and the use of the land, by the local authority or a town planning authority... which either increase or decrease the value of the land'.

In terms of section 3 of the Valuation for Rating Act a valuation roll must be prepared every five years or such a longer period as the Minister for Local Government may approve. In reality the average is closer to fifteen years.

A valuer is appointed by the council, with the approval of the Minister for Local Government. The valuer must prepare a draft valuation roll (or supplementary valuation roll). The valuer is allowed to use any suitable method of valuation to determine the value of land (s.8(3)).

Even in the case of cities with their own valuation offices (Nairobi, Kisumu, Mombasa, and Nakuru), valuations are generally done by valuers employed by the Ministry of Lands. The Ministry of Lands is however understaffed with too few valuers. They are often tied up in legal wrangles for extended periods and are also burdened with the task of doing valuations for other purposes (e.g. stamp duty and expropriations). Establishing and maintaining valuation rolls are not priorities (Muchiri, 1998). Although some of the valuers employed by the department are located at district offices, the majority are located at the department's head office in Nairobi.

Supplementary rolls are prepared from time to time to amend the valuation roll as regards inaccuracies, new properties, etc. In the case of many smaller municipalities supplementary rolls have not been prepared and even in the city of Nairobi delays with supplementary rolls have been experienced in the past (Gachuru and Olima, 1998).

A valuation roll must contain the following information as regards each rateable property:

- A description of the area and location of the land;
- The name and address of the rateable owner;
- The capital value of the property (i.e. the improved value);
- The value of the unimproved land; and
- The value of the improvements.

For every property there are therefore three values provided (improved value, site value and the value of the improvements) - even though only the unimproved site value is used for rating purposes. In arriving at the value of the land the legislation prescribes that the valuer may adopt any suitable method of valuation.

After completing the draft valuation roll, it is signed by the valuer and passed on to the town clerk. After the roll has been presented to and discussed at a council meeting, a note is published in the media inviting public inspection. Within 21 days of presenting the roll

at a council meeting, the owner of each rateable property must be notified about the value of his/her property.

Unfortunately valuations are often suspect (Olima, 1998). Valuation methods should be legislated in more detail. This should improve the uniformity of valuations and would also help counter corruption. There is a tendency to do 'personalized' valuations for certain clients which are generally far above the market value. With these inflated property values, property owners are in a position to obtain larger loans (using the inflated values as collateral).

Overall Performance (Coverage, Assessment, Tax and Collection Ratios)

Coverage ratio: Problematic, especially at the urban fringe and in informal settlements. Many properties are not reflected in the valuation rolls (Syagga and Olima, 1996). Typically only land located in established, gazetted areas within a council will be on the valuation roll (Kelly, 1998). According to Kelly (1998) it is estimated that the coverage ratio may range between 30-70% of the total taxable land. Freehold land is generally excluded. Fiscal cadastre information is still maintained manually and in most cases out of date (Ahene, 1997). Although a legal framework exists to ensure an acceptable coverage ratio, the administrative capacity does not. Generally the identification of taxpayers is not (yet) a serious problem. However, should informal transfers continue unabated, this could become a major problem (Muchiri, 1998). There are minor problems regarding absentee landlords and the ownership of certain land used or occupied by squatters.

Assessment ratio: At least eighteen councils' valuation rolls are over ten years old (Kelly, 1998). Nairobi still uses the 1982 roll. In some cases valuation rolls are older than fifteen years (Syagga and Olima, 1996). Low valuation ratios create efficiency and equity distortions which eventually impacts negatively on compliance. Valuations are done on a parcel-by-parcel individual valuation of each rateable property. There is a serious shortage of qualified valuers (Syagga and Olima, 1996).

Tax ratio: High nominal rates (e.g. 13% in Nairobi) are the result of dated valuation rolls. Effective tax rates are generally low.

Collection ratio: It is estimated that the more effective councils collect about 70% of the due rates, whereas ineffective councils collect as little as 20% (Kelly, 1998). Only a few councils use stand-alone computer-assisted billing systems (Kelly, 1998). To improve payment levels, Nairobi City Council introduced a discount (of up to 5%) on early payments of the rates account. Other councils are now also considering this option. The total amount of year-on-year property tax arrears is becoming a significant problem (Gachuru and Olima, 1998). Some of the smaller councils are struggling to collect rates (e.g. certain county councils are not collecting rates in villages).

Revenue and Non-Revenue Policy Issues

There are vast differences between principle (what the law states) and practice in the sphere of property assessment and rating. Property tax is to a large extent an under-utilised source of much-needed revenue for local governments. Coverage, assessment and collection ratios are presenting the majority of Kenyan rating authorities with serious problems. Table 10 gives an indication of the relative importance of property tax as a revenue source for municipal councils and town, urban and county councils.

Table 10: Importance of the property tax as a source of municipal revenue

Source of Revenue	**Municipal councils (1996/97)** Kenya Shs ('000)	**Town, urban and county councils (1996/97)** Kenya Shs ('000)
Property tax (i.e. rates)	86.50	6.12
Licences and cesses	16.84	27.01
Ground rent	14.98	5.09
Stamp duty	0.49	0.26
Direct sales of goods and services	142.23	66.43

From Table 10 it is clear that in the more rural areas, indirect taxes (e.g. agricultural cesses) are still more important than property tax.

There is no information flow between those responsible for assessment and those responsible for billing and enforcement (Konyimbih, 1995). Kenya will benefit tremendously from a computerised property tax information management system which could assist in all facets of the property rating system (Kelly, 1998). Especially coverage, assessment and collection could improve dramatically. Merely adjusting tax rates exaggerates the present inequities inherent in the system.

Land grabbing, informal transfers and transfer by presidential decree are also undermining land values and thereby impacting negatively on the property tax base.

The Future of Land Value Taxation in Kenya

Notwithstanding issues concerning low rates of collection, arrears, limited numbers of qualified valuers and dated valuation rolls land value taxation appears to be functioning satisfactorily. Though the existing legislation permits the differential taxation of improvements, local authorities have singularly chosen the valuation simplicity of rating land rather than improvements notwithstanding that valuation rolls must provide all three values.

Since the introduction of rates in Kenya, there has been debate on whether the property tax system should be based on land alone or on land and improvements. Several

commissions and reports have concluded that improvements should form part of the tax base (Feetham Commission, 1926; Nyagah Commission, 1975; and the Omamo Commission, 1995).

Various commentators are in favour of a rating system based on capital improved values, rather than site value. It is argued that in well-developed areas (e.g. Nairobi's CBD) a site rating system cannot generate enough revenue to service the infrastructure and services provided (Olima, 1999). Syagga and Olima (1996) argue for site rating for undeveloped land and capital improved rating for developed sites - i.e. rating based on the 'market value of the rateable property'. The Valuation for Rating Act 1956 already makes provision for rating improvements. However, there is strong opposition from wealthy (influential) landowners and politicians (Gachuru and Olima, 1998).

Local authorities in Kenya are currently faced with the problem of inadequate revenue sources to finance the provision of local services. Increasing urban populations has resulted in increasing demands for urban services and thus derived demand on local authority expenditure. There is a mismatch between local authority tax revenue and local expenditure due to the rather inflexible nature of local tax instruments. Among the five major sources of local authority revenues, rates or property tax commands the major source even given the level of arrears and the rates of annual delinquency. There is clearly a need to mobilise efforts to maximise the potential of the property tax in terms of revenue generation.

Australia

Australia and New Zealand embraced land value taxation largely as a result of the ideas of Henry George (Hornby, 1999). The land value system has been developed in these two countries to a greater extent than probably anywhere else in the world. However, in recent times the situation has changed. Whereas state-levied land taxes are still exclusively based on unimproved land values, local government property tax bases, nowadays vary substantially. Local government is primarily a function of state and territory governments, therefore the systems differ. For example, local government coverage in New South Wales, Queensland, Victoria, Tasmania, and Western Australia is 100%, whereas it is only 15% in South Australia and a mere 5% in the Northern Territory. This also impacts on the various rating systems operative in the various states and territories.

The Commonwealth and the States are discussing increased taxation of each other's activities. A full tax regime (i.e. reciprocal taxation) will have a severe impact on the local government sphere. According to the Australian Local Government Association (ALGA), local government will be a large net loser if reciprocal taxation is introduced and no provision is made for adequate compensation for the increased liability for Commonwealth and State taxes (ALGA, 1998).

The Australian Commonwealth recently (1 July 2000) introduced a broad-based Goods and Services Tax (GST) which, in essence, is a form of value-added tax. The introduction of GST implies that local governments are liable for GST on goods and services provided to it, whereas they were previously exempt from sales tax. Local governments have to charge GST on the provision of certain services.

The fear has been expressed that if the States fail to secure adequate revenue sources (including a deal on revenue sharing with the Commonwealth), they may want to extend their property-related taxes. This will further diminish the capacity of the rates base of local government in all Australian States and territories (ALGA, 1998). ALGA suggests that the constraints on rates revenue (by arbitrary exemptions, limits and definitions) must also be reviewed in the context of wider tax reform. Retention of a strong rates base for local government is essential.

Property-related taxation in Australia has a long and proud history. Although its popularity has decreased in recent years (in favour of income taxation), it is still an important source of revenue for State governments and especially for local government (Hornby, 1999). Local government rates account for on average approximately 68% of total taxes on immovable property, while state land taxes account for approximately 27% (Hornby, 1999). In 1996/97 the total revenue from taxes on immovable property for the whole of Australia, amounted to A$7,367 million (Australian Bureau of Statistics).

Australia is famous for its excellent and accurate titling system, the so-called Torrens system (administered by the Registrar of Deeds and the Registrar of Titles), that ensures certainty of rights in property. This is a valuable asset in the context of maintaining a legitimate property tax system.

Table 11 provides a summary of rating provisions in the 6 states (New South Wales (NSW), Queensland (Qld), South Australia (SA), Tasmania (Tas), Western Australia (WA) and Victoria (Vic)) as well as the Northern Territory (NT).

Table 11: Preferred property tax bases in Australia

	NSW	**Qld**	**SA**	**Tas**	**WA**	**Vic**	**NT**
Preferred tax base	SV	UV	CIV	Annual	GRV (urban) UV (rural)	CIV	SV
Optional tax bases	—	—	SV or NAV	SV or CIV	—	SV or NAV	CIV or NAV

Recent years have seen a decline in the level of Commonwealth grant support and a decreased reliance on debt finance. Local government has become more reliant on its own taxes, user charges and fines, especially property tax (i.e. rates).

In terms of Commonwealth legislation, aboriginal land is not presently being rated anywhere in Australia. In some aboriginal communities in the Northern Territory community councils are beginning to tax themselves in various ways (e.g. house taxes) (Revenue Raising Options, 1999).

For purposes of the present study, the rating systems (with emphasis on the land value rating systems) presently utilised in the Northern Territory, Western Australia, Queensland and Victoria, will be discussed.

Northern Territory

Origin and Historic Development

The Northern Territory, which only attained self-government in 1978 (and is appropriately referred to as 'the last frontier'), has a surface area of approximately 1.5 million km^2, but a population of only 195,000, of which approximately 70,000 live in its capital city, Darwin.

Rates as a percentage of total local government operating income is about 50%. Especially in the remote rural villages and aboriginal communities, where the property tax base is limited or non-existent (due to statutory prohibition), intergovernmental grants are the most important sources of revenue for municipal councils.

Local Government Structure

There are 68 local governments, covering only 5% of the surface area of the territory. These local governments comprise the following:

- 6 municipalities;
- 1 special purpose town;
- 32 community governments;
- 29 incorporated associations.

Community governments and incorporated associations are typically small aboriginal communities, but recognised as local governments by the Commonwealth and Northern Territory governments so as to be able to utilise grant funding for municipal type services. In terms of Commonwealth law, local governments cannot levy rates on aboriginal land. Therefore the smaller, predominantly aboriginal communities (community governments or incorporated associations) have, in some cases, introduced 'service charges' (Revenue Raising Options, 1999).

The larger councils (i.e. municipalities provide the usual range of municipal services, with the noticeable exception of planning and building regulation (for which the Northern Territory government is responsible). The Litchfield Shire Council is the only large rural council in the Northern Territory and provides services only in the areas of

roads, rubbish and recreation (referred to as the '3Rs'). This council levies a flat A$325 per property, irrespective of size, value, zoning or use.

Present Status of Land Value Taxation

The Local Government Act of 1993 (s.65) provides for a choice between unimproved values, improved capital values, or annual values as tax base, or a combination of any two of these. In practice, however, unimproved values (UV) is the only tax base utilised in the Northern Territory, for all rateable properties in all taxing jurisdictions.

In contrast to other Australian states, a land tax (on unimproved values) is not levied by the Northern Territory government.

Nature of the Property Tax

Table 12: Synopsis of the local government property tax legislation

Taxable Object	Approximately 45,000 parcels
Tax Base	Unimproved value (in practice); Capital improved value; or Annual value.
Taxpayer	Owner
Method(s) of Assessment	Willing buyer, willing seller Extensive use of CAMA technology
Assessment	The Valuer-General's Office (in practice), although open to tender.
Valuation Cycles	Every 3 years
Objections and Appeal Procedures	VGO considers queries and objections; the Land Valuation Tribunal hears appeals
Tax Rates	Uniform or differential rates, set locally; Minimum rates are generally applied; 'Flat rates' in two jurisdictions
Exemptions	Crown land and aboriginal land

Valuation Issues

Presently, the only basis for valuation for rating purposes is unimproved values. The private sector can, in theory, compete with the Office of the Valuer-General for the contracts in terms of which municipal valuation rolls are prepared. In practice, however, all of the valuation rolls are prepared by the Valuer-General's Office on a three-year cycle (with interim valuations taking place whenever required).

Unlike the independent status of Valuer- General's in the Australian states, the Valuer-General for the Northern Territory and his staff are employees of the Commonwealth's Australian Valuation Office. There are only nine valuers for the Northern Territory, eight based in Darwin and one in Alice Springs (on a rotation basis). The office of the Valuer-General is a business venture, with the contract to the Northern Territory government funding the majority of its work.

Non-rateable properties are also assessed. The cost per parcel of the valuation rolls for Darwin and Alice Springs amount to approximately A$3-00.

Overall Performance (Coverage, Assessment, Tax and Collection Ratios)

Coverage ratio: All land is assessed, although not all land is rateable. Only approximately 5% of the total land area of the territory presently fall within the boundaries of a local government.

Assessment ratio: UVs are assessed on a three-year cycle throughout the territory. Mass appraisal techniques and manual assessments are being used. The relatively small number of queries, objections and appeals received by the Valuer-General's Office suggest that the quality of assessment is generally very high.

Tax ratio: Councils generally use differential rating based on zoning and also generally apply minimum rates (which may also vary between property categories). Two councils introduced and maintain a system of fixed rates per property.

Collection ratio: High, with no serious problems being experienced. A recent auction of eight properties in the small town of Tennant Creek has had a positive effect on payment levels for that municipality.

Revenue and Non-Revenue Policy Issues

The Northern Territory maintains a strict separation between the provider (Valuer-General's Office) and the user (the rating authorities) of valuations, thereby ensuring the independence of valuations, the basis for a sound and legitimate valuation roll.

There are presently no indications to move away from using unimproved values as the exclusive base for local government rating. It is however interesting to note that two councils, Palmerston (an urban council adjacent to Darwin) and the Shire of Litchfield (predominantly rural - e.g. small-holdings) have introduced so-called 'flat rates' (not to be confused with 'flat rating' as encountered in South Africa). A 'flat rate' is a fixed annual amount per rateable property - irrespective of size, value, use or zoning (see uniform annual charges in New Zealand).

The Future of Land Value Taxation in the Northern Territory

With no reforms to the rating system presently being contemplated and with UVs being the only option for a rating system based on assessed values, the future of land value taxation in the Northern Territory seems secure. In a sparsely populated, undeveloped territory, the utilisation of unimproved values makes sense.

Western Australia

Origin and Historic Development

Western Australia is vast. It has a surface area of approximately 2.5 million km^2, but a population of less than 1.9 million of which 1.3 million live in the Perth Metropolitan Region. The Roads Act 1902 gave Road Boards the power to use a site value or an annual value system to raise revenue, with the majority of boards opting for a site rating system. In 1945 urban municipalities were granted the same powers (Hornby, 1999).

Local Government Structure

Local governments (municipalities) are categorised as cities, towns and shires – covering the total surface area of the State. Shires will typically consist of one or more small towns and their surrounding rural areas. There are 144 local governments of which 30 are urban local governments located in the Perth Metropolitan Region.

Local governments range in size from the minute town of Peppermint Grove (a mere 1.5 km^2) within the Perth Metropolitan Region, to possibly the largest municipality in the world today, namely the Shire of East Pilbara (378,553 km^2). The City of Perth itself is a small council, consisting primarily of the central business district. Its surface area is 8.8 km^2 and its population approximately 5,200 (in 1997).

All local governments charge and collect rates. Rates revenue as a percentage of total local government revenue averages 42% for Western Australia (the median, however, is 34%). In the case of Stirling council (within the Perth Metropolitan Region), 75% of its revenue is derived from rates, whereas in the case of the Shire of Upper Gascone, only 4.5% of its total revenue is from rates (the rest primarily comes from Commonwealth grants). In 1980 the McCusker Committee of Inquiry was established to examine problems related to rating and taxation. Amongst other things, this committee recommended that only one valuation base should be used for rating purposes. The base should be capital value for improved properties and site value for unimproved properties. Prior to the McCusker Committee the Keall Report recommended that assessed value should be a certain percentage of capital value. These recommendations have not (as yet) been implemented (Hornby, 1999).

The tax base for all land situated within a 'townsite' (i.e. all land within the 30 councils in the Perth Metropolitan Region, all land within towns, as well as urban properties within the jurisdiction of shire councils) is gross rental values (GRVs), whereas, unimproved values (UVs) are used by shire councils for rural properties. In other words, two tax bases are utilised simultaneously by shire councils.

Present Status of Land Value Taxation

Unimproved values (UV) for all properties in Western Australia are assessed annually by the Valuer-General's Office for purposes of the State's land tax and those local governments (i.e. the shire councils) using UV rating. A metropolitan region improvement tax (at a tax rate of 0.15 cent in the A$) is collected by the State Revenue Department on all land within the Perth Metropolitan Region which is also liable for the State's land tax and on the same tax base - i.e. site values. In respect of townsites, UVs equate to SVs. Differential rates and minimum rates are imposed by most councils.

Nature of the Property Tax

Table 13: Synopsis of the local government property tax legislation

Taxable Object	In excess of 735,000 parcels
Tax Base	UV (shire councils for rural land); or GRV (all townsites)
Taxpayer	Owner
Method(s) of Assessment	GRV: Total rental value a property can achieve over a period of 12 months UV: Willing buyer, willing seller Extensive use of CAMA
Assessment	Registered valuers in the private sector, or the VGO (in practice)
Valuation Cycles	GRV: Triennial cycle (metro); 4-6 years in rest of the State; UV: annual assessments
Objections and Appeal procedures	VGO considers queries and objections; the Land Valuation Tribunal hears appeals
Tax Rates	Uniform or differential rates, set locally; however there is a clear move towards the more extensive use of differential rates Minimum rates are extensively used
Exemptions	Crown land

Valuation Issues

All land parcels in Western Australia has been surveyed and assessed. There are more than 734,600 property parcels in total. The Valuer-General's Office, State Revenue Department and Department of Land Administration (the Titles Office) are all computer-linked and records are frequently updated electronically. All relevant and applicable information pertaining to land (e.g. changes regarding property values, subdivisions and/or transfers) is transferred by computer linkages between these offices. In Western Australia the separation between the provider (Valuer-General's Office) and the user (taxing and rating authorities) of valuations is important. As in the Northern Territory this ensures the independence of valuations, the basis for a sound and legitimate valuation roll.

No person shall be engaged as a valuer for a rating or taxing authority unless he or she is licensed under the Land Valuers Licensing Act 1978, or qualified for membership of the Australian Institute of Valuers (incorporated) as a Fellow or Associate of that Institute (s. 25(2) of the Valuation of Lands Act 1978).

Local governments are entitled to use their own valuers to establish a valuation roll. Should a local government choose this option, the office of the Valuer-General only does

quality control. In practice, however, all local governments have opted to use the values prepared by the Valuer-General.

GRVs are assessed on a triennial cycle in the Perth Metropolitan Region and on a four to six-yearly cycle for towns and shire councils. The introduction of annual revaluations of land in 1993 to provide UVs, necessitated the use of modern mass appraisal techniques. However, these techniques are used for all of the different valuations for which the office of the Valuer-General is responsible.

As pure unimproved value became unworkable for 'townsite' land, due to the nature of certain improvements (defined as 'merged improvements'), 'unimproved value' is actually defined (in the Valuation of Land Act 1978) as 'site value' in respect of urban properties (i.e. land situated within a townsite). The 'site value' of land is defined as 'the capital amount that an estate of fee simple in the land might reasonable be expected to realise upon sale assuming that any improvements to the land, other than merged improvements, had not been made...' In rural areas 'unimproved value' implies that land is still assumed to be in its virgin state.

Overall Performance (Coverage, Assessment, Tax and Collection Ratios)

Coverage ratio: All land is assessed, although not all land is rateable (e.g. aboriginal land). The Western Australian property information system is excellent.

Assessment ratio: Revaluation cycles vary from annual for UVs to between three and six years for GRVs. Mass appraisal techniques are used for both UVs and GRVs. The few queries, objections and appeals received by the Valuer-General's Office suggest that the quality of assessment is generally very high.

Tax ratio: Councils are increasingly opting for differential rating. Perth City Council utilises seven land use categories and introduced differential rating in 1997/98. The Shire of Wyndham-East Kimberley has recently (in 1999/00) introduced differential rating in respect of rural properties.

Collection ratio: High, with no serious problems being experienced.

Revenue and Non-Revenue Policy Issues

The use of differential rates is currently on the increase. Minimum rates apply to all categories of property (town and rural).

The future of Land Value Taxation in Western Australia

In recent years there has been a definite move away from using site values as a base for local government rating in respect of land situated within a townsite. However, unimproved values are still utilised for all properties throughout the state for purposes of Western Australia's land tax and for the rating of rural land within shire councils.

Queensland

Origin and Historic Development

Queensland is now the only state in Australia which uses 'unimproved' value for the rating of all lands rural and urban (Trickett, 1982). The system is of some antiquity in the history of local government finance. After an initial attempt to use annual values local authorities have been levying rates on unimproved values since 1887. Initially, unimproved value was used only by the shires, but the success of this change of rating base led to the adoption in 1890 of the unimproved value system for cities and towns as well. The Queensland Valuation of Land Act 1944 was modeled on the earlier New South Wales and New Zealand valuation legislation and also drew heavily on the Federal Land Tax Act. It is quite easy to understand why unimproved value was adopted by most states in the early stages of their development as it has a particular philosophical attraction to those responsible for the development of a largely undeveloped state.

Local Government Structure

Local government within Queensland is responsible for the carrying out of a wide variety of functions beneficial to their local community. Historically, local government had a narrow range of defined functions. The expression 'Roads, Rates and Rubbish' has been used to describe these functions. However, over the years the range of functions has been expanding and, under the Local Government Act 1993, local governments are given a broad general competence power to enable them to provide most services a local community may need or desire. Therefore, it is necessary for a local government to be able to raise its 'own' revenue to fund the major part of its expenditures on services and facilities. The following represent the main services which local government have primary responsibility for; preventive health, recreation, community development, cultural development, town development, road network, stormwater drainage, water supply, sewerage and solid waste management.

Present Status of Land Value Taxation

Two recent reports the Chalk Report (1989) and the Smith Report (1990) investigated the basis of valuation and concluded that the existing system of unimproved value be replaced with that of site value. There is merit in the adoption of site value particularly for urban lands from the viewpoint of better accuracy and ease of valuation. The question of whether to consider capital improved rating is currently on the agenda however, realistically speaking such a dramatic change would require substantial analysis of impact and effective incidence. The logical short-term improvement to the valuation basis would be the adoption of site value.

Nature of the Property Tax

Table 14: Synopsis of the local government property tax legislation

Taxable Object	1.24 million parcels
Tax Base	Unimproved value
Taxpayer	Owner
Method(s) of Assessment	Comparable sales; residual; limited application of indexation and multiple regression techniques
Assessment	Centralised through the government office of the Valuer-General
Valuation Cycles	Legislation permits the use of annual revaluations (Brisbane, Gold Coast, Cairns) and 3-yearly for the rest of the state
Objections and Appeal Procedures	Landowners have 42 days in which to object to their valuation, 28 days in the case of an annual revaluation; aggrieved parties can further appeal to the Land Court and finally to the High Court of Australia
Tax Rates	Each local authority annually sets its own tax rates; differential rating is widespread throughout Queensland, as is the use of minimum rates
Exemptions	Crown land and land used for religious and charitable purposes
Rebates	Residential owner occupiers remission

Table 14 (continued)

Collection	By one lump sum or by instalments
Enforcement Procedures	Daily interest charges if account is unpaid after the expiry of 30 days; unpaid tax represents a charge on the land, new owner may be liable for outstanding tax

Valuation Issues

Unimproved value of improved land means the capital sum which the fee simple of the land might be expected to realise if offered for sale on such reasonable terms and conditions as a bona fide seller would require, assuming that, at the time as at which the value is required to be ascertained for the purposes of this act, the improvements did not exist. This definition not only excludes the value of visible improvements but also the added value of invisible improvements such as reclamation by drainage or filling, grading, levelling or clearing.

The unimproved value shall not be less than the sum that would be obtained by deducting the value of improvements from the improved value.

Overall Performance (Coverage, Assessment, Tax and Collection Ratios)

Coverage ratio: All land is assessed, although not all land is rateable.

Assessment ratio: The principle of state-wide annual valuations is in force however apart from selected urban areas demonstrating volatile growth the majority of local authorities are revalued on a three-year cycle. Mass appraisal techniques are not widely used at present. A greater use is made of annual indexation and the averaging of assessed values. The few queries, objections and appeals received by the Valuer-General's Office suggest that the quality of assessment is generally very high.

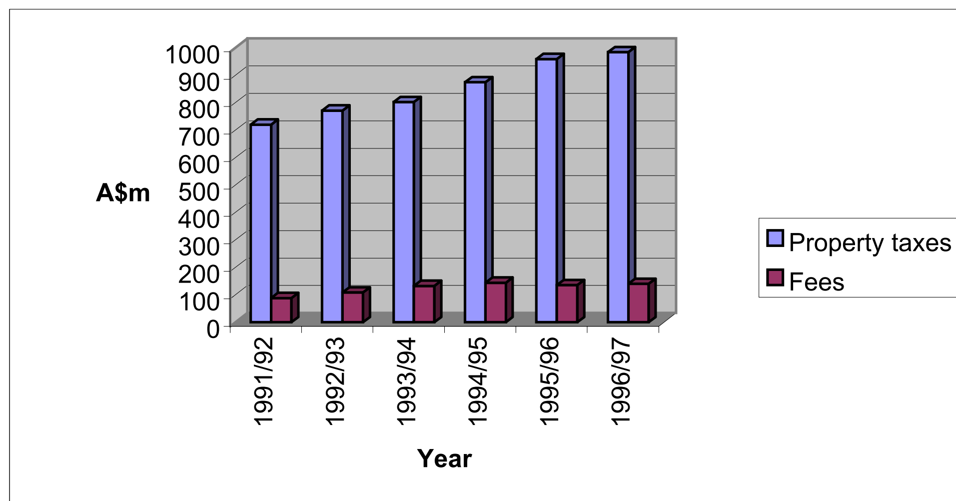
Tax ratio: Councils are increasingly opting for differential rating.

Collection ratio: High, with no serious problems being experienced.

Revenue and Non-Revenue Policy Issues

Local government can decide to implement a system of differential rating to reflect existing and future land uses, services and facilities available to land, location and demographic patterns. In addition, the following can also be levied, separate rates and charges, special rates and charges and utility charges. Figure 1 highlights the importance of rates as a revenue source local government in comparison to the other main sources of revenue i.e. fees/user charges.

Figure 1: Local government revenue: property tax and fees 1997/98



Source: Australian Bureau of Statistics, Taxation Revenue

As of 1997 Queensland had 1.24 million properties assessed for municipal rates with an aggregate unimproved value of A$95.95 billion.

The Future of Land Value Taxation in Queensland

Since the turn of the 19th century local government rates in Queensland have been levied on the unimproved capital value of properties. Meaning the value of the land literally

without any improvements of any kind (but with all existing amenities). The existing definition of unimproved value requires the valuer to make two basic assumptions, the first being that the estate is a fee simple one and the other being that the land at the date of valuation is in its natural state i.e. without either visible or invisible improvements, in other words both unimproved and undeveloped. The making of the second of these assumptions means that the determination of the unimproved value of improved land under the existing definition requires the valuer in most cases to attempt the impossible task of ascertaining the original state and condition of the land, at a point in time when there is no longer any evidence as to that state and condition. This requirement introduces unnecessary uncertainty and complexity in the valuation process, and provokes differences, disputes and litigation between the valuing authority and the owner.

For valuers the difficulties and anomalies associated with this definition of land, however are increasing with the passage of time and urban development. For example, improvements such as leveling, clearing and filling carried out many years previously are becoming virtually impossible to identify. Other states have adopted the concept of 'site value' (see Western Australia). This means the value of land including improvements which have merged with it over time because they have become permanent; require no maintenance; and for all practical purposes have merged with the land and become invisible. For the purposes of assessing the ratable value of land, such improvements should be deemed to have merged with the land after a period of ten years or upon its prior sale.

The adoption of the concept of 'site value' in place of unimproved value would have the advantage of eliminating a misleading concept from the rating system. It is clear that the term 'unimproved value' is not generally understood by the taxpaying community and that the hypotheses upon which such a value has to be ascertained are confusing. Therefore, the phrase 'site value' should ideally be adopted in place of unimproved value.

Victoria

Origin and Historic Development

Prior to 1919 the law required that the property tax be based on net annual value (NAV). The 1915 Rating on Unimproved Value Act (amended) subsequently accorded local authorities one of three choices:

- To remain on NAV;
- Change to site value; or
- Change to a combination of the two.

Then in 1958 the Local Government Act reinforced the use of the two bases NAV and site value; capital improved rating (CIV) could not be used by authorities for rating, but

was calculated to provide the starting point for assessing NAV (i.e. NAV can be taken as 5% of the CIV). A fundamental change occurred in 1989 when the Local Government Act introduced capital improved rating and access to differential rating for councils using CIV. Therefore, local authorities have at present the choice of one of three rating options, site value, net annual value and capital improved value.

Local Government Structure

The origins of local government in Victoria can be traced back as far as 1840, just five years after permanent European settlement. In 1842 legislation was passed to incorporate the Town of Melbourne. During the latter part of the 19th century, the number of towns, boroughs and shires in the state increased dramatically and by the turn of the century, there were 208 individual local government units in Victoria. The most recent municipal reform took place in Victoria in 1992 when there were 210 local authorities; by the end of 1995 this number was reduced to 78.

Local government is responsible for the provision of a wide variety of services including planning, building control, health and community services, roads, library services and fire protection. To fund these services revenue is obtained from a number of sources; grants and subsidies allocated by the Victoria Grants Commission, rates, charges and fees.

Present Status of Land Value Taxation

Land value taxation as a system is clearly under pressure in Victoria. In 1996, 61 of Victoria's councils had adopted capital improved rating with seventeen using site value. Currently, only three local authorities apply site value and one would expect them to follow the general trend in adopting capital improved values. However, the State Revenue Office will still require land value assessments for the State Land Tax, which currently raises around $400 million per annum

Nature of the Property Tax

Table 15: Synopsis of the local government property tax legislation

Taxable Object	2.34 million assessments
Tax Base	Authorities have the choice between site value, capital improved value and net annual value (NAV equals 5% of CIV). All property is valued according to each valuation basis although only one is used for rating
Taxpayer	Owner is liable for the property tax
Method(s) of Assessment	Comparable sales; profits and contractors methods; limited use of indexation particularly in Melbourne; some application of mass appraisal methodologies.
Valuation Cycles	Melbourne is revalued annually; all other metropolitan authorities and non-metropolitan are on 2-yearly cycles.

Objections and Appeal Procedures	Any person aggrieved by an assessment may object but only on specific grounds listed in the legislation; objections must be made within two months of the assessment; a further appeal with an independent Tribunal.
Tax Rates	Each council has the power to set its own rates; greater powers to apply differential rates if they adopt capital improved rating.
Exemptions	Crown land; land used for religious, charitable and educational purposes.
Rebates	Farmland

Table 15 (continued)

Collection	Payable in one lump sum or by instalments.
Enforcement Procedures	Interest liable on unpaid tax.
Assessment	Undertaken by each authority by either own staff or under contract.

Valuation Issues

A municipality may use the site value, net annual value or capital improved value system of valuation. In order to change the current system a council must publish a public notice of its decision to change the system with a poll of voters to be taken.

It is clear from the analysis that councils in recent years have been moving to capital improved value systems. As capital improved value includes all improvements it is often supported on the grounds that it more closely reflects capacity to pay. This view relies on the premise that those with the greater capacity to pay are more likely to invest in their properties and make improvements. Part of the reason for this shift can be explained by the legislation allowing councils to use differential rates if they move to a CIV basis.

Site value of land means the sum which the land, if it were held for an estate in fee simple unencumbered by any lease, mortgage or other charge, might in ordinary circumstances be expected to realize at the time of valuation if offered for sale on such reasonable terms and conditions as a genuine seller might be expected to require, and assuming that the improvements (if any) had not been made.

Improvements for the purposes of ascertaining the site value of land, means all work actually done or material used on and for the benefit of the land, but only where as a result the value of the land has been increased. Not considered as improvements are the removal or destruction of vegetation, or the removal of timber, earth, the draining or filling of land and the changing or improving of any waterway (Valuation of Land Act 1960).

Overall Performance (Coverage, Assessment, Tax and Collection Ratios)

Coverage ratio: All taxable property must appear in the valuation rolls.

Assessment ratio: At present all authorities have to adhere to the recently adopted a two-year revaluation cycle; Melbourne has since 1994 been revalued annually. The assessed values to market values are therefore maintained and significant value shifts are minimised.

Tax ratio: Each local authority annually strikes individual tax rates; those on CIV have the additional power to set differential rates.

Collection ratio: Levels of collection are approaching 100%.

Revenue and Non-Revenue Policy Issues

A council may declare the following rates and charges; general rates; municipal charges; service rates; service charges; special rates; and special charges.

Rates contribute in the region of 76% of a municipality's annual budget, however this percentage varies quite considerably across the different councils. Statewide the total revenue generated is in the region of A$1.3 billion (1997).

For the City of Melbourne Table 16 illustrates the main sources of revenue available. (It should however be noted that Melbourne uses net annual value as the basis of the property tax).

Table 16: Revenue sources for the City of Melbourne: 1998

Source of Revenue	**Percentage**
Property tax (i.e. rates)	49
Fees and charges	32
Interest	6
Other	6
Dividends	2
Grants	2
Sale of property	3

The Future of Land Value Taxation in Victoria

Within Victoria local authorities have the option to use one of three rating bases i.e. site value, net annual value and capital improved value. Whilst authorities must assess properties on all three forms, only one may be used for municipal rating purposes. The valuation base used for rating purposes does not affect the total level of revenue a council raises through rates. However, the choice of valuation base can affect categories of properties differently and so influence the distribution of rates burden across the local authority.

Site value is a major burden on those land uses, which rely heavily on the land component. As it does not include improvements it therefore places a greater relative burden on the undeveloped properties. There has long been an argument that such taxes encourage development while annual value and capital improved value systems discourage development. There is, however, little empirical evidence that shows such an effect, and the evidence that does exist suggests that local taxes are less important than other factors in business decisions on location. The use of site value can place considerable pressure on councils to give concessions to categories of landowners on whom the rating burden is seen to fall disproportionately for example, large farming enterprises. In recognition of this, few rural local authorities are on site value. Those that are, have frequently tried to address the problem, either by striking very favorable farm rates or by the extensive use of minimum rates. Such cases are clearly moving well away from the *ad valorem* basis of property tax and the very fact that local authorities feel it is necessary to do this suggests difficulties with the basic principle of site value.

In built up urban areas, with very little or no unimproved land/sales a further strong argument against site value exists. In such cases unimproved values tend to be artificial and may have to be extrapolated from neighboring local authority areas.

Figure 2: Property tax system use by local authorities in Victoria: 1998

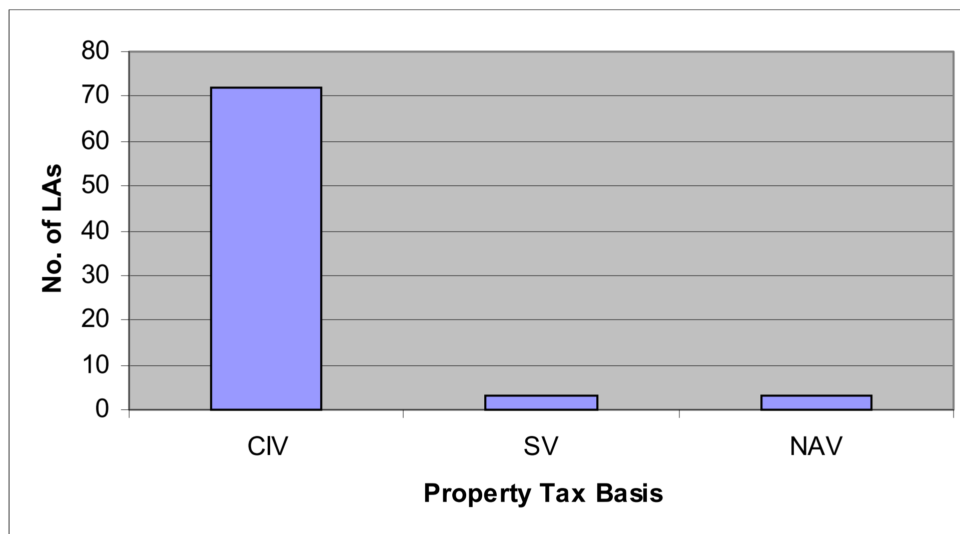


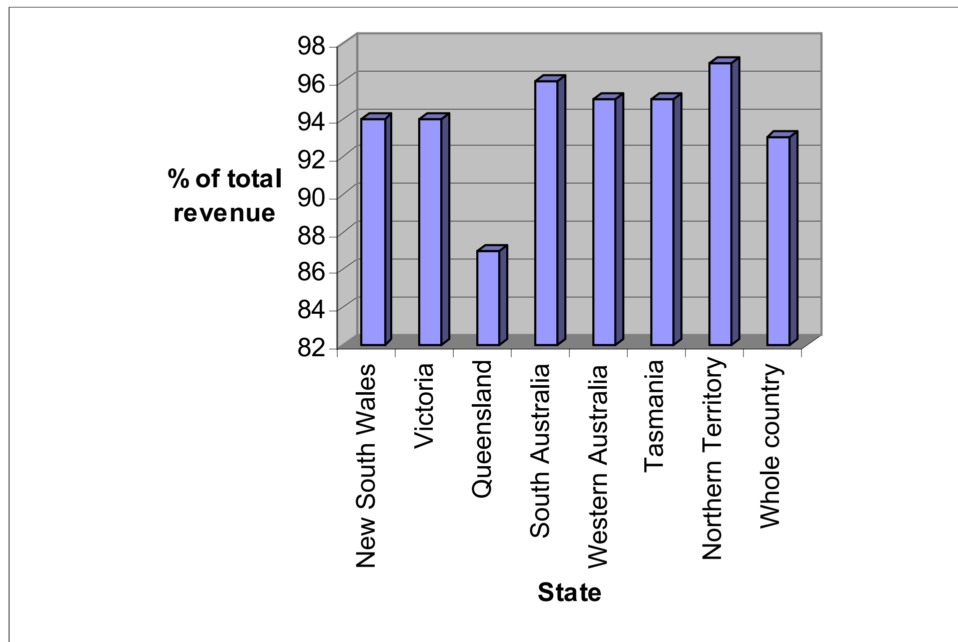
Figure 2 illustrates the importance of capital improved systems as the basis of local authority rating in Victoria. There are advantages from all authorities using the same valuation system. Similar properties on either side of a local authority boundary could pay significantly different rates simply because of the valuation base used. It would appear that Victoria is moving albeit in a piecemeal approach to having a uniform value base for the entire state.

Australia: General trends

Property Tax Revenue

It is abundantly clear from Figure 3 that local government in Australia is highly dependent upon the revenue raised from *ad valorem* property taxes.

Figure 3: Property tax revenue of local government: 1998



Source: Australian Bureau of Statistics

Differential Rating

The role and application of differential rating has increased quite dramatically at the local government level. There are a number of reasons for this:

- Differentials allow local authorities to encourage, through discounted rates, activities such as economic development and specific land uses;
- Differentials can deal with anomalies that may arise in a purely *ad valorem* system;
- Differentials provide greater flexibility to address capacity to pay and benefit principles.

Frequency of Revaluations

An important development throughout the states investigated is the emphasis being placed on more frequent revaluation cycles. Recently, the state of Victoria moved to a two-year cycle. There is however, a clear trend towards annual revaluations either at

state level or for the major cities, for example, Western Australia, Melbourne, Brisbane and Cairns.

New Zealand

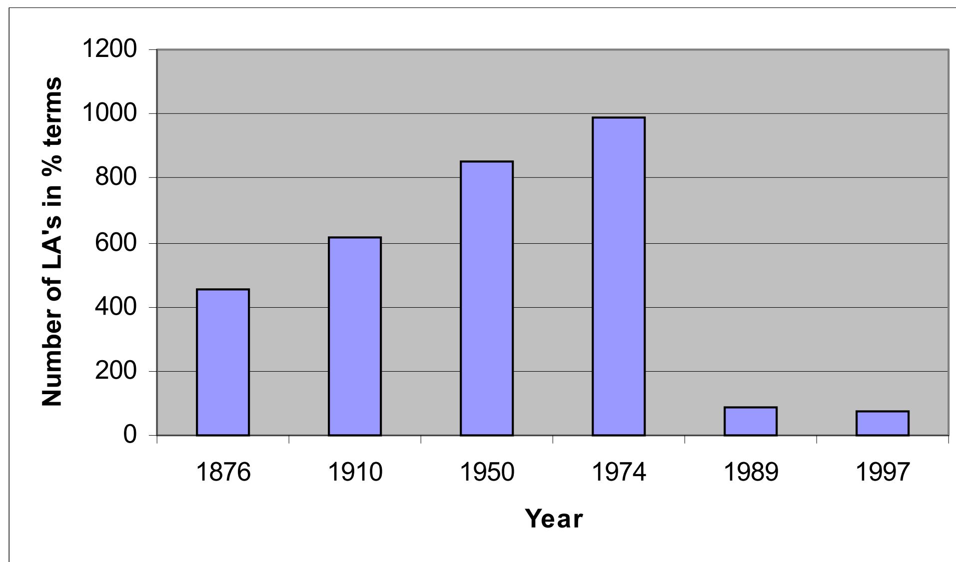
Origin and Historic Development

In 1844 the new colony's government gave local authorities the power to tax land for the purposes of raising revenue. The principal system of rating adopted by all local authorities was based on annual rental values, more or less identical to the English rating system. In a young and developing country land tended to be bought outright rather than rented. Given the undeveloped nature of the country the Unimproved Value Act 1896 was passed giving local authorities the choice of which valuation basis to adopt. The majority of local authorities by ratepayer poll adopted unimproved value systems. Over the last fifty years land value based rating has been the dominant system. However, since 1985 there has been a definite swing towards the use of capital improved systems.

Local Government Structure

Since 1989 New Zealand local authorities have experienced major restructuring. As at December 1987 there were 828 agencies of regional and local government, there are currently twelve regional councils, 74 territorial authorities and six special authorities. Both regional councils and territorial authorities have the power to levy rates. The main functions of the regional councils include responsibilities under the Resource Management Act, control of pests and noxious plants, marine pollution control, regional civil defense and to oversee transport planning. Territorial authorities generally have responsibility for noise and litter control, parks and reserves, roads, sewerage, water supply and building consents. Figure 4 shows the number of local authorities over the period 1876-1997.

Figure 4: Number of local authorities: 1876-1997

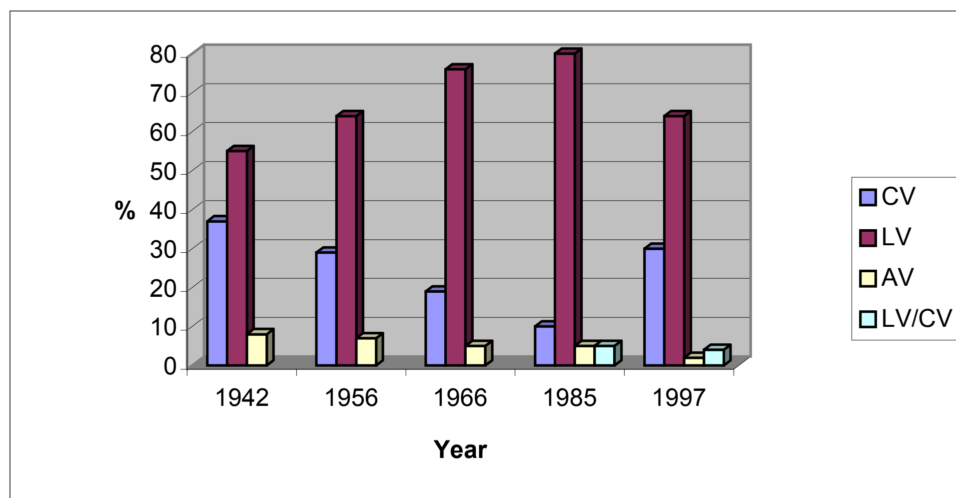


<u>Present Status of Land Value Taxation</u>

The property tax represents an important source of municipal finance. Rating has a historical pedigree in New Zealand and clearly has a significant future. Currently, the valuation roll shows capital improved value, land value and the value of the improvements, which can allow the application of different rates for each element.

The changes, which have occurred in terms of the service provision of valuations for authorities, are far-reaching and likely to have important consequences. Figure 5 illustrates the importance of land value as the main rating basis up until the mid-1980s. In fact in 1985 almost 80% of territorial authorities used land value. However, it is since 1985 that there has been a gradual decline in the usage of land value by territorial authorities and the relative increase in the use of capital improved systems.

Figure 5: Systems used by local authorities in percentage terms



<u>Nature of the Property Tax</u>

Table 17: Synopsis of the local government property tax legislation

Taxable Object	1.57 million parcels
Tax Base	Territorial authorities can normally decide on any one of three options subject to taxpayer poll; site value; capital improved value and; annual rental value; highest and best use concept is applied
Taxpayer	Normally the occupier however, the owner in certain circumstances may become liable
Method(s) of Assessment	Comparable sales; residual method; limited use of multiple regression techniques
Valuation Cycles	The legislation provides for 5-yearly revaluations however, most local authorities revalue on a 3-yearly basis; Wellington revalues annually
Objections and Appeal Procedures	Objections can be made against the roll or alterations made to it; appeals can be made to the local Land Valuation Tribunal and ultimately to the High Court
Tax Rates	Each territorial authority can set its own tax rates on an annual basis; there is widespread use of differential rating
Exemptions	Crown land; land used for schools, universities, religious worship, hospitals, airports, harbours, national parks and historic places

Table 17 (continued)

Rebates	Farmland is entitled to rates postponement if the market value is in excess of the existing use value; special rateable values provided for land which has values greater than existing use
Collection	Payment can be made in one lump sum or by instalments; discounts available for early payments in full
Enforcement Procedures	Penalty charges levied on unpaid rates; rates become a charge on land if remain unpaid
Assessment	Territorial authorities can tender for valuation services from the private sector and the government owned Valuation New Zealand

Valuation Issues

Land value is the value of the owner's estate or interest, unencumbered by any mortgage that might be expected to realize at the time of valuation if offered for sale on such reasonable terms and conditions as a bona fide seller might be expected to require, and if no improvements had been made on the said land.

The value of improvements means the added value, which at the date of valuation the improvements give to the land. Improvements to land means: all work done or material used at any time for the benefit of the land by the expenditure of capital or labour by any owner or occupier. Insofar as the effect of the work done or material used is to increase the value of the land and the benefit thereof is unexhausted at the time of valuation. Certain improvements are deemed to be part of the land value such as, draining, excavation, filling, grading, leveling and the removal of rocks and soil (Dowse and Hargreaves, 1999). Therefore the current definition includes all invisible improvements of capital or labour to the land to make it suitable for development.

The valuation rolls provide for each ratable property the capital improved value, land value and the value of improvements.

Overall Performance (Coverage, Assessment, Tax and Collection Ratios)

Coverage ratio: all land apart from exempt land is included within the tax base and currently would be close to 100% coverage.

Assessment ratio: Revaluations are normally conducted on three-yearly cycles with Wellington being subject to annual revaluations. Valuation rolls are therefore kept up-to-date and representative of market values. Prior to July 1998 Valuation New Zealand was the government agency responsible for providing valuation services to the local authorities. However, VNZ has now been replaced by two new organizations, Office of the Valuer-General and Quotable Value New Zealand. The main result is that the provision of land and capital rating valuations is no longer an exclusive central government function. As from July 1998 territorial authorities have the choice as to who will provide rating valuations on their behalf.

Tax ratio: Territorial authorities have the power to set their own tax and differential rates ensuring that revenue from rates is buoyant and sufficient to meet relevant expenditures.

Collection ratio: Levels of delinquency and arrears and extremely low, payment would tend to average around 99%.

Revenue and Non-Revenue Policy Issues

Territorial authorities have the power to levy different types of rates; general rate, separate or special rate, service rate, uniform annual charge, consolidated rate and lump sum contributions. Under the general rate an authority may levy differential rates. This allows different rates in the NZ$ for various parts of the district and/or for different land uses.

Overall local government has six main sources of income, the relative importance of which is shown in Table 18.

Table 18: Local government sources of revenue

Total Current Receipts (%)		
	1990	1998
Property tax (i.e. rates)	56.0	56
Sales and other income	18.0	19
Grants	13.0	10
Investment income	8.5	9
Fees and fines	3.5	5
Petrol tax	1.0	1

The Future of Land Value Taxation in New Zealand

Early attempts to establish a uniform basis of rating in New Zealand were negated as early as 1896 when the freedom to choose between annual value, capital value and unimproved value was clearly established. The Officials Co-ordination Committee Report (1988) drew attention to the various ways that the property valuation focus had been shifted, by bringing in differentials and uniform annual charges. The report suggested the introduction of capital value rating would reduce some of the pressures giving rise to the use of differential rating. Mainly for reasons of local autonomy there has been a perception that a choice of systems was needed. It is claimed either capital value rating or land value rating may be more appropriate for an individual authority because of the character of the district. It could be argued that land value rating is better for rural areas and capital value rating is more appropriate for cities. The report concluded that there were good reasons for having one form of rating system nation-

wide, but if government had no clear preference, then there should be access to both land and capital value rating systems. The 1988 Committee indicated the following:

- Capital values are readily established by reference to direct market data whilst land values are more difficult to demonstrate and are consequently less readily understood;
- Capital values will continue to be required for other purposes;
- There is more correlation between ability to pay and capital values than is the case with land values;
- Many local authorities ostensibly rating on land value nevertheless derive a significant proportion of their rating income from capital value levies.

Would the move to a uniform system be less expensive? There would be a saving in costs if the land value system was discontinued (VNZ, 1992). Although not exactly quantified it could be in the order of 5% of expenditure related directly to the provision of valuation roll services. This represents the marginal cost of maintaining detailed assessments of land values for improved properties.

As the capital value system is better understood it is likely that there would be less time spent in advising ratepayers about the system than is the case with those districts where land value rating is used. Land value as a system is not well understood by ratepayers particularly with respect to the development improvements and structural improvements.

It was one of the conclusions of the 1988 report that generally speaking sharp changes in value arise in respect to land values, rather than to buildings and other improvements. Valuations based on land alone are therefore more likely to increase more than capital improved values.

While the land value rating system has been a valued system in the past, its benefits are increasingly being questioned. Even if one accepts that its strength is the encouragement that it brings to develop property it is questionable whether New Zealand is in a developing mode. In addition, land use planning through the rating system is not the most efficient mechanism to attain proper land use controls.

Jamaica

Origin and Historic Development

Jamaica has had a long and diverse history of property taxation. It was first introduced in the 17th century as part of the British administration of the island. The first property tax to be imposed was levied under the 1901 Valuation Law, and comprised a quit rent levied at the nominal charge of 1 penny per acre, a house tax based on the value of each dwelling unit and a crop tax levied on all cultivated land. The law required that landowners supply specific information relating to their property including acreage,

crops cultivated details on buildings etc. In addition, the owners were obliged to give three values to the Collector of Taxes i.e. 'ingivings':

- The gross present value of the property;
- The net annual rental value; and
- The value of the land in its natural and unimproved state.

Problems with the 'ingivings' resulted in a number of commissioned reports being undertaken. The result of this work culminated in the Land Valuation Act 1956 which remains the current legislation and has only been slightly amended from its original drafting and passage into law. From a study of the proceedings of the House of Representative as recorded in the Jamaica Hansard (Session 1956 - 57 No.3), the following were the two major objectives in introducing the Land Valuation Bill. Firstly, it was considered desirable to introduce a tax base which:

- Did not tax a person in the efforts he put into the land;
- Provided a means of taxing values created by the community at large; and
- Discouraged the withholding of land from use.

Secondly, the system of valuation was unsatisfactory for the following reasons:

- It placed too great a reliance on the voluntary declaration of value by the owner as a basis for preparing the valuation rolls;
- It was pointed out that, by and large, individual inspections of land were not made under the system;
- It was not difficult to see that the system would lead to competitive under assessment on the part of landowners with the inevitable result that the rolls would lack uniformity - a feature which is generally regarded as a *sine qua non* for a rational system of land taxation;
- Anomalies and inequalities were wide spread due not only to the basic defects on the system but, also to the failure to undertake a general revaluation.

The Land Valuation Act of 1956 made provision for the administration of the Act by the Commissioner of Valuation, under the direction of the Minister. The Commissioner is required to make a valuation of the unimproved and improved value of every parcel of land in each district. The parishes formed district boundaries for the purpose of the Act. The Commissioner is required to set the date at which each parcel of land is to be valued but the Minister brings a valuation roll into effect. The Act makes provision for a process of appeal for persons not agreeing with the valuation of the Commissioner initially to a Valuation Board, now to the Revenue Court, with further appeal to the Court of Appeal.

Although the Act provided for the determination of two bases of value, i.e., unimproved (site value) and improved value, the rolls were published with only one set of values i.e. unimproved values.

Local Government Structure

The institution of local government has existed in Jamaica for over 300 years, having been established about 1662. The original system was essentially imported from England and was based on local authorities that had jurisdiction within their parishes for the relief of the poor and maintenance of roads. The system remained relatively unchanged for some 200 years, until 1865. The main changes that were effected was the creation of 14 parishes councils (from 22), an expansion of the role of local government to include public markets, abattoirs, public health, water supplies, fire protection, street lighting and the operation of gas works. In Jamaica the 'Parish' is the name given to the unit of local government administration. In addition to the metropolitan area of Kingston and St. Andrew which, although comprising two parishes, is a single local government unit, the island is divided into twelve parishes, viz., St. Thomas, Portland, St. Mary, St. Ann, Trelawny, St. James, Hanover, Westmoreland, St. Elizabeth, Manchester, Clarendon and St. Catherine.

However, in 1985 the then government transferred almost all of the major functions of the parish councils to central government agencies, for example, public health went to the Ministry of Health, roads to the Ministry of Construction and public cleansing and public markets went to agencies of the Ministry of Local Government. Local government has essentially deteriorated since the mid 1980s both in respect of financing and local autonomy.

In 1989 local government reform was restored to prominence on the national agenda with the creation in 1990 of the Local Government Reform Programme that had as its aim:

> …to establish a strong, viable and vibrant system of decentralized administration through which citizens in their communities and within their parishes can become more involved and have greater control over local affairs.

To meet this objective it was considered imperative that a process of financial reform was required which would seek to provide parish councils with adequate and independent sources of revenue. The main sources of revenue to be transferred to the parish councils included the Land Tax, Motor Vehicle License Fees, Spirit and Trade Licences and the power to set fees and user charges for services under their jurisdiction.

In the 1960s local government derived in the region of 75% of its revenue from local rates and property taxes. Local rates involved separate rates for such things as fire protection, sanitation, street lighting electricity. Then in 1970s these separate rates were merged with the property tax and all revenue collected was paid into the Consolidated Fund. This served to disconnect the revenue and expenditure functions leading to an excessive and growing dependence upon central government funds. Parishes were then given a grant in lieu of the property tax and up until 1996, 90% of the revenue required to fund local services came in the form of a deficit grant from central government. Then on the 1 April 1996 the situation altered, to where parishes are now in receipt of land tax

revenue. Parishes will continue to receive grants or contributions from central government however, this will be generally confined to:

- Grants in lieu of taxes for government owned property. Under the present legislation this type of property is exempt;
- Specific grants in respect of social/welfare services such as poor relief, minor water supplies, indigent housing, etc.;
- Support for traditional central government functions such as, emergency relief, disaster mitigation, etc.

Main functions of parish councils include street lighting and cleaning, road maintenance, minor water supplies and public water supplies, markets, cemeteries, abattoirs, civic improvement and public amenities.

Present Status of Land Value Taxation

Land value taxation represents an important source of tax revenue for local government. The current system in terms of valuation appears to be well accepted by the tax-paying public and represents a transparent taxing instrument. Sufficient land sales mean that there is enough evidence upon which to base the assessed values. Given the unique nature of many of the properties in Jamaica it would be extremely difficult and resource intensive to introduce a system of improved values.

Nature of the Property Tax

Table 19: Synopsis of the local government property tax legislation

Taxable Object	630,000 parcels
Tax Base	Unimproved value of the land
Taxpayer	Owner
Method(s) of Assessment	Comparative and residual method; highest and best use applied; currently no mass appraisal methods are used
Valuation Cycles	The legislation provides for 5-yearly cycles however revaluations have taken place in 1974, 1983 and 1993. The next one is planned for 2000/01.
Objections and Appeal Procedures	The landowner has 60 days to object; grounds of objection are restricted to questions of value, ownership and mergers or splits of assessed values
Tax Rates	Tax rates set in revaluation year and remain fixed until next revaluation;
Exemptions	Land used for religious, educational, and charitable purposes; Crown land and land owner by parish councils
Rebates	Agricultural land entitled to 50% exemption; recreational

	clubs and organisations valued at existing use; residential property in commercial areas assessed at existing use values
Collection	Payable in one or four equal instalments; no discounts available
Enforcement Procedures	Interest charged on unpaid tax; property can be sold to recover arrears; tax clearance certificate is required on sale of property
Assessment	Assessments undertaken by the Land Valuation and Estates Department, a central government agency; private sector are used in a limited capacity

Valuation Issues

Unimproved value means in relation to improved land, the capital sum which the fee simple might be expected to realize on the basis that the improvements as defined in the law do not exist. Improvements in relation to the land are taken to mean those physical additions and alterations and all works for the benefit of the land which as a result increases its value. However, the destruction or removal of timber or vegetable growth is not regarded as an improvement, i.e. the original clearing of the land is ignored.

In assessing the unimproved value of land on which there are improvements, the assessed value will be the greater of either the market value of a comparable unimproved site, or the value obtained by the deducting the value of the improvements from the value of the improved property.

In addition, the unimproved value does not mean value in current use unless the current use is the highest and best use. All advantages which the land possesses, present or future may be taken into consideration therefore potential use can be taken into account as long as it is reflected in the market.

Overall Performance (Coverage, Assessment, Tax and Collection Ratios)

Coverage ratio: Approximately only 50% of the land is registered and has appropriate title. Currently a land titling project is underway which should increase the coverage of the tax. Unregistered land can be sub-divided without notification of the Land Valuation and Estates Department.

Assessment ratio: The last revaluation was conducted in 1993 with the next one scheduled for 2000/01. Revaluations are conducted manually with no application of mass appraisal techniques or statistical measures for quality control (Lyons and McCluskey, 1999).

Tax ratio: Tax rates are set in the revaluation year and remain fixed until the next revaluation, this results in buoyancy problems as the revenues are eroded by inflationary pressures. There is a need to set tax rates on an annual basis.

Collection ratio: Collection efficiency is unacceptably low with annual rates in the region of 60%; this coupled with substantial arrears is a major problem for the government and parish councils. As property tax revenue has been allocated to local government there is a greater emphasis now placed on reducing the level of arrears and increasing compliance.

Revenue and Non-Revenue Policy Issues

A progressive system of taxation applies (see Table 20) which is targeted at the most valuable properties.

Table 20: Tax rate structure

For first J$20,000 of value	J$50
For every J$1 of the next J$30,000 of value	0.10c
For every J$1 of the next J$50,000 of value	0.30c
For every J$1 of the next J$400,000 of value	0.75c
For every J$1 of the next J$500,000 of value	1.50c
For every J$1 of the next J$1,500,000 of value	2.00c
For every J$1 of the next J$2,500,000 of value	2.50c
For every J$1 of remainder	3.00c

Table 21 illustrates that in the region of 50%-60% of the gross collectable amount is actually collected. There is clearly a significant problem of annual non-payment and year-on-year arrears of tax.

Table 21: Level of collection in nominal terms

Year	Collection (J$ million)	Gross collectable amount (J$ million)
1992/93	88.4	196
1993/94	258.1	567
1994/95	461.2	836
1995/96	490.0	843
1996/97	474.0	850

Up until 1996 the tax represented a central government tax paid into the Consolidated Fund. However, this has now changed and all of the tax is allocated to the Parish Councils. This revenue source represents on average 19% of the total parish budget, with the remainder being met by charges and intergovernmental grants. There will therefore be a greater incentive placed on the parish councils to minimize tax delinquency and arrears.

The Future of Land Value Taxation in Jamaica

It must be demonstrated that if the unimproved value system is to be maintained it must be sustainable in comparison with the alternative approaches. As outlined by St. Clare Risden (1977) it has to be shown conclusively that:

- The unimproved value system can capture the full taxable capacity of real property and is therefore capable of yielding the optimum revenue level;

- The system in Jamaica is less expensive to administer in relation to potential tax yield than any alternative system;
- The system satisfies the fiscal canon of equity, since the tax base is not distorted, nor is the tax incidence skewed; and
- The system provides for a strategy for the discouraging of holding vacant or under-utilised land.

From a fiscal point of view, one of the most significant aspects to be considered is the cost of administration in relation to the potential tax yield. In addition, the costs associated with being able to maintain the currency of the assessed values particularly in times of rapidly changing values. In view of this it is important to consider the constraints such as the time taken to prepare the valuation roll and the availability of professional and technical personnel.

The relatively high cost of recording improved property has to be measured against more economical means in determining the taxable base. It is accepted that a capital improved system is considerably more expensive and requires greater resources to ensure the tax base is maintained. One of the attractions of a capital improved system is that, in theory, the improvements to land (i.e. buildings, extensions, etc.) is supposed to be reflected into the value of the tax base on an annual basis so that the taxable base is buoyant or elastic. But where there are resources constraints in terms of trained, experienced personnel the gain in moving to capital improved might be more illusionary than real. There is the associated problem of being able to maintain an accurate register of improvements to land particularly in an environment where such improvements are undertaken without the necessary approvals having been obtained. In relation to the situation in Jamaica the costs of effectively administering an improved value system could not be justified on the grounds of tax sustainability. It would be extremely difficult to envisage how Jamaica could now move to improved values given the costs involved in capturing the improvements to land. The planned 2000/01 revaluation will be based on the existing system of site value.

PART III: Emerging Trends and Issues

Local Government Reform

South Africa is undergoing unprecedented local government reform. Apart from establishing non-racial local government structures since 1994, the Municipal Demarcation Board (established in 1998) had the monumental task of demarcating new municipal boundaries in line with the criteria set out in the Local Government: Municipal Demarcation Act of 1998 and the Local Government: Municipal Structures Act of 1998. The number of municipalities will be reduced substantially from 843 to 284. Amongst other changes, non-metropolitan municipalities will function along similar lines to Western Australian shire councils, i.e. a local municipality will consist of a number of towns and their surrounding rural hinterland. Furthermore, the Local Government: Municipal Rates Bill will bring about major changes to the local property tax.

Despite the Omamo Commission tabling its report in 1995, no material reforms have been implemented in Kenya.

In an initiative called 'Local Government: The Next Step', the Northern Territory is initiating gradual reforms, including, amongst other issues, the establishment of fewer, larger and more sustainable councils. Various revenue raising options (primarily fees and charges) for aboriginal communities are also suggested (Revenue Raising Options, 1999).

During the latter part of the 19th century the number of local government units in Victoria, Australia, was 208. The first ever comprehensive restructuring of local government was undertaken between 1993 and 1995. This saw the number of municipalities reduced from 210 in early 1993 to 78 in 1995. The main functions of the municipal councils are provided for in the Local Government Act 1989. The functions primarily include health, education, welfare, community services, planning and land use, water, drainage, sewerage, gas, electricity, street maintenance, recreational and cultural services, parks and gardens.

There is an international tendency towards a process of decentralisation, allocating greater responsibilities to lower tiers of government whilst giving them greater financial autonomy. Since 1989 New Zealand local authorities have experienced major restructuring. As at December 1987 there were 828 agencies of regional and local government, there are currently twelve regional councils, 74 territorial authorities and six special authorities. Both regional councils and territorial authorities have the power to levy rates.

Jamaica has been undergoing a major local government reform with the emphasis being placed on greater accountability of local government in terms of providing services. In view of this restructuring the revenue from land tax is being allocated directly to local

government budgets as opposed to the previous arrangement which saw all revenue being paid into the Consolidated Fund.

Definitions

The difficulty in framing a definition of land/site value is that there is also a need to define improvements to the land. What improvements can be included in the value of the land, what are to be excluded, what period of time needs to have elapsed before improvements are deemed to have merged with the land? These and other questions have been tackled by each respective country in different ways by those responsible for the drafting and implementing legislation. Over the years the original definition of 'unimproved value' has proved to be difficult to apply in practice; this has led to most of the countries/states investigated examined to revise their definitions and introduce land or site value (with the notable exception of Queensland and rural Western Australia).

The statutory basis for making rating valuations across the various countries exhibits some interesting characteristics, similarities and differences. The selection of the statutory base for valuation is very important, as logically, it should provide for an equitable basis upon which the tax is levied. From the valuer's perspective the basis upon which the valuations are made should facilitate the valuation process. That is, the basis of valuation should be in sympathy with the property market in which it operates. The original definition of unimproved value referred to the value of land without structural or site improvements. Thus, under this definition the valuer is required to ignore the value added by all of the improvements (including site improvements e.g. works of filling, drainage, clearing etc). The difficulty with this approach to valuation arises when valuers are considering land that has existed in an improved state for many years. Under this definition valuers have been required to deduct the value added by site improvements even though the site improvements, of say, clearing timber, had been made at some remote time in the past. This meant valuers making the somewhat unreasonable assumption of notionally valuing the land in its original condition. By in large where the basis is to value the land ignoring the improvements there is a realisation that invisible improvements such as clearing, levelling, grading, etc., should be merged with the land and reflected in its value. The exception to this is Queensland and rural Western Australia where the land is to be valued in its original, unimproved state. This is quite a difficult task, especially in highly developed areas where no one has recollections as to the original state of the land. In practice this could well lead to inequities in valuations between landowners.

Normally there is little difficulty in determining the improved capital value of a property, it is the splitting up of this figure into its constituent parts i.e. value of improvements and land value where all the practical difficulty lies. Hosking J. in *Thomas v. The Valuer-General* said:

> 'I do not quite see how the method adopted by the valuer can be a matter of law, unless it must end in a wrong conclusion. If the result is right, does it matter

> whether he adds from the top or the bottom. If his result is wrong then upon appeal it is open to be attacked on evidence, whichever method is adopted.'

In the South African appellate division case of *Durban Corporation and Another v Lincoln* 1940 AD 36 Watermeyer J.A. (delivering the majority judgement) states the following regarding the manner in which the value of improvements should be established:

> 'It is important to notice that rates may be levied on the whole property, or the land alone, or diversely on the land and the buildings but not on the buildings alone… To arrive at the fair market value of the property as a whole does not present any insuperable difficulties… But when the next step has to be taken and the total market value of the whole property has to be divided into two and allocated in part to the land and in part to the buildings upon the land, a very much more difficult problem arises… A building standing upon a piece of land is like a picture painted upon a piece of canvas; and just as it is impossible to sell the picture apart from the canvas on which it is painted, so it is equally impossible to sell a building apart from the land. It is possible to scrape the paint from the canvas, and it is possible to pull the building down and sell the material, but then the work has been destroyed and what is sold is not the building but building material… It is, therefore, idle to attempt to find the market value of the building separated from the land on which it stands, and any valuator who attempting to do so is pursuing a will of the wisp. The value, therefore, which has to be assigned to buildings … is not market value but value determined in some other way.
>
> If the position of the other component part, the land, be examined, it will be seen that, though there are difficulties with regard to its valuation, they are nothing like so formidable as those connected with the building, and it is not necessary to abandon entirely the idea of market value…
>
> The market value of land, separated from the building that stands upon it, is not an incomprehensible idea… The market value, therefore, of land separated from the building which stands upon it, when determined in the only way it is possible to determine it, is seen to be the equivalent to the market value of the land regarded as a vacant site. [The valuation board] determined the market value of the land, and in the course of doing so, in order to arrive at an attainable result, they regarded the land as a vacant site. They then deducted the value of the land, so arrived at, from the value of the property and allocated the balance as the value of the building.'

and:

> 'In my opinion the only practical and logical view to take is that land regarded as a vacant site has a determinable market value, that the building placed upon it is a physical addition to the land and that thereafter the market value of the property

> (land and building) may be greater or theoretically it may even be less than the market value of the land alone. The difference – the increase or the decrease – is due to the building, and can be regarded as the value of the benefit or of the burden of the building. It is, of course, not the market value of the building: there is no such thing.'

In essence, all three values, i.e. capital value, land value and value of improvements should be ascertained independently. Therefore, should the equation be used in its various forms?:

CV = LV + V of I

CV	capital value
LV	land value
V of I	value of improvements

Or alternatively, the V of I = CV – LV.

The approach to determine the value of visible improvements is at best variable. Different approaches can be discerned (i) determine the added value of the improvements (ii) the unimproved value is determined by deducting the added value of the improvements from the capital improved value or alternatively, (iii) to apply an upper limit restricting the added value to the replacement cost of the improvements and (iv) the value of improvements is determined by deducting the site value from the capital improved value (i.e. market value) of the property.

Table 22: Methods to determine the value of improvements

Country/State	Added Value	Replacement Cost	Subtraction (Residual value)
South Africa			X[1]
Kenya			X
Northern Territory	X		
Western Australia		X	
Queensland	X	X	
Victoria	X		
New Zealand	X	X	
Jamaica	X	X	

1 In the province of KwaZulu-Natal buildings are valued as the estimated cost of erection at the date of valuation minus depreciation

In relation to the value of improvements Jamaica, New Zealand, Queensland and Victoria prescribe that it is the 'added value' which the improvements give to the land which has to be determined. However, in relation to Jamaica, New Zealand and Queensland the figure obtained is constrained to reflect the replacement cost of equivalent improvements.

In South Africa (with the province of KwaZulu-Natal being the exception) and Kenya the only method prescribed by legislation is that the value of improvements must be calculated by subtracting the site value of the parcel from its improved value.

Methods of Valuation

The practicality of any form of *ad valorem* system, and more so with land value, is brought sharply into focus when consideration is given to the question of valuation. It is essential to remember that for land only systems the valuations should be made easily and with a reasonable degree of uniformity and accuracy.

The unimproved value definition created a number of valuation orientated difficulties in the assessment of unimproved value and to overcome these the statutory definitions of unimproved value were revised or amended by a provision which allowed the deducing of the value of improvements from the improved capital value. The application of the subtraction method is well supported by two leading Australian authorities. In the first case, *James v Valuer-General* [1942] 15 LRG (NSW) 110, the judge made the following comments:

> 'The approach to the problem, however, is different when one is dealing with town or city valuations where, as is almost invariably the case, there are no or no reliable sales of comparable land in its unimproved state. Sales of land in settled

> towns and cities are almost always sales of improved land, and an opinion of the unimproved value of the land can generally only be formed by stripping the sale of its improvements: in other words, endeavouring to ascertain how much of the purchase price is attributable to the improvements and the value which they add to the value of the land, and how much is attributable to the land in its unimproved state…'

and:

> 'If it appears that land is being devoted to its proper use from the point of view of exploiting its value, and that the improvements upon it are necessary and proper for that use, and that there is no element of value involved in the improved value other than the intrinsic value of the land and of the improvements then there is, in my view, no error involved in a valuer forming his opinion of the unimproved value of the land by deducting the value of improvements from the improved value.'

The second authority is *Barber v Valuer-General* [1969] 17 LGRA 409 where the following is stated:

> 'A common course which is followed for this purpose is to take sales of unimproved land and to make deductions from the price paid on such sales which will indicate the value of the land in an unimproved state. Since these sales are for the most part of land which has been improved by the erection of structures, fencing, and farm buildings as well as the clearing of timber and pasture improvement, this process involves the deduction from the sale price of improved properties of the value or depreciated cost of the various improvements.'

In *Ussher v Valuer-General* [1980] 5 QLCR 175 the court disapproved of the method of assessing the unimproved value by firstly establishing the improved or market value of the property and then deducting from this figure the value of the improvements. In making its decision the court made the following statement:

> 'Such a method starts with an assumption and ends with a figure dependent not only on the accuracy of the initial assumption but also on the reasonableness of the value attributed to the improvements. Whilst the latter values may be tested, the initial assumption is purely hypothetical and cannot be satisfactorily demonstrated to be anything else.'

There has always been practical difficulties in valuing land on an unimproved value basis. In the case of urban land there are often no sales of comparable land in an unimproved state which a valuer can use to determine the unimproved values of 'unsold' land. Generally speaking the assessment of site value is usually straightforward where evidence of demand is present and good sales are available. However, in areas such as inner suburbs or in highly developed inner cities, vacant land sales may well be non-

existent. Valuers will then have to rely on sales from neighbouring municipalities to provide an indication of land value.

There have been arguments for the application of the 'abstraction' method to determine the value of the land, particularly where the subtraction method could well lead to an inappropriate assessment of land value. Ordinarily, total improved value minus the value of improvements equals land value. But, in the case of over-developed property, the subtraction method might not give the 'right' answer. It is therefore necessary to abstract the value of the land by comparison with other land of similar attributes which has been sold. Both 'abstraction' and 'subtraction' have generally been recognised in most countries as leading to a valid result in the proper circumstances (Groves, 1949; Blackwell, 1994).

Valuers need to have the necessary analytical skills to be able to determine the added value of improvements within a sale to help in extracting site value. In rural valuation methodology the deductive process is in common usage, as valuers need to be able to extract the added value of different improvements e.g. dwelling, fencing, livestock buildings, etc.

With respect to valuing land the market or comparative method, the land residual method, the development method, and the allocation method must all be utilised. Numerous sales of vacant lots that represent all the determinants of land value such as corner location, depth and width variance, topography, zoning, location, subsoil conditions, shape and size, would make the valuer's task easy and inexpensive. Unimproved lot sales in most cities are, however, few and far between. It is therefore necessary to supplement the direct evidence obtained by the market method with benchmark site values that represent allocated portions of the selling prices of improved real property.

A further methodology often considered is the residual method or hypothetical development method (Blackwell, 1994). This approach requires the notional development of the site to its highest and best use; from the estimated capital improved value a deduction is made of all of the estimated costs to arrive at an indication of site value. This technique has often been criticised because of the number of assumptions that need to be made and the effect on the residual value (i.e. site value) if any of the key assumptions are altered. This anticipated use method is applicable primarily to unimproved land but can also be used for valuing underused sites.

The allocation method identifies the ratio of building value to land value, that is, it allocates value to improvements and value to the unimproved land parcel. Each improved parcel is unique because of age, condition, physical character, and the economic suitability of the improvements. As such, it is impossible to obtain a uniform ratio and thus the same inequities will remain as under the general property tax. However, if certain data is available, it is possible to establish the pattern of land-to-total-value ratio variance.

It is also possible by calculating the average ratio of improvements to land value to determine which properties will have their taxes decreased under a land value system and which will see increases. Those properties with an improvement to land value ratio higher than average will receive a reduction, while those below the average ratio can expect an increase.

Whilst there are no fundamental conceptual problems in valuing land for taxation, there are formidable difficulties in practice. For example, the scarcity of bare land sales make the testing of assessment levels somewhat problematic (Netzer, 1966).

Highest and Best Use

It is a general assumption of valuation that land value systems adopt highest and best use: it is a principle of valuation procedure to value land in accordance with its highest and best use. Most countries make specific reference in their legislation to empower this concept, for example in Victoria the Valuation of Land Act 1960 (s.5A) states that in determining the value of land account shall be taken of the existing use and the highest and best use which the land might reasonably be expected to be put. In Jamaica, legislation permits the taking into account of any other purpose for which the land could be used (Land Valuation Act 1957). As mentioned above, South Africa's Local Government: Property Rates Bill (clause 33(1)(b)) presently limits site values to current use.

A fundamental aspect to be considered in the assessment of site value is the concept of highest and best use. Fisher (1930) defined the concept as:

> 'Highest and best use is that kind of utilisation of land which will enable it to produce, over a period of time, the highest net income.'

Highest and best use as defined by Boyce and Kinnard (1984) is that reasonable and probable use that supports the highest present value, as defined, as of the effective date of the appraisal. The highest and best use in context of market value is the most probable use.

These definitions imply that the determination of highest and best use results from the appraiser's judgement and analytical skill, i.e. that the use determined from analysis represents an opinion, not a fact to be found. Highest and best use must be reasonable, probable, and proximate (likely to occur soon, if not immediately). It is not speculative or conjectural. It may or may not be the present use of either the site or the improved property.

Highest and best use can change over time as external market forces change. These forces include effective demand and all its components, public tastes and standards, land use regulations (especially zoning), and competition. In addition, the character of the subject property itself may change, thereby changing its highest and best use. This is why

highest and best use is always estimated as of the valuation date. In some instances, highest and best use may anticipate the market, provided the conclusion is reasonable, probable, and proximate.

Sites are always valued as if vacant and available to be put to its highest and best use, when market value is to be estimated. In the analysis of highest and best use, appraisers must consider not only the suitability of the site for existing or proposed use but also its suitability for alternative uses. They must discover that use which is most probable from the point of view of the typically informed buyer on the market. This is the use that will produce the highest present worth of the site.

Present use of the property may differ from highest and best use of the site. The existing use will continue, however, unless and until land value in its highest and best use exceeds the total value of the property in its existing use. Therefore, the present use of an improved property is presumed to be its highest and best use unless it can be demonstrated that change is imminent through the impact of market demand or legal (land use control) forces.

The principle has received judicial approval in a number of cases including *Spicer v Valuer-General* [1963] 10 LGRA 319 where the court said;

> 'The law is quite plain that under the Valuation of Land Act 1916 (NSW) the unimproved value of land must be based upon the best or most profitable potential use.'

The highest and best use of a parcel of land is normally a question of fact and usually presents little difficulty in its determination. In most rural areas, residential and industrial locations the highest use of the land is a relatively straightforward issue. However, in transitional areas where the predominant land use is slowly changing e.g. a residential suburb seeing an influx of commercial activities, or part of the commercial inner city witnessing a decline in fortunes.

Relief Measures

Related to the identification of the highest and best use of a parcel is the need to protect certain existing uses that would not be considered as the highest and best use.

No system of property taxation including land value is universally applicable in all situations, resulting in measures of relief to be instituted to protect certain classes of property and occupiers. As an example, in older established residential areas caught up in changing use to commercial/offices, it may be found that the taxes on residential property are excessive if assessed on the basis of these higher and potentially more 'profitable' uses. To preserve the original land use from an early demise, various schemes of relief are utilised, some relating to the valuation process as such (e.g. differentials of

discounting the actual value to a lower level), and others operating outside the realm of assessment (e.g. property categorisation or zoning coupled with differential rates).

Relief through Special Valuations

Special valuations have limited application in South Africa. The Transvaal ordinance (s.9) provides for special valuations for certain 'railway property' and certain land or rights in land held by a 'power undertaking' (e.g. land traversed by power lines, cables and gas pipes).

In Western Australia special provisions apply regarding the valuation of mining tenements and land held under a production licence for petroleum granted under the Petroleum Act 1967.

In New Zealand the approach to protect certain land uses is to apply rates postponement. Under the Rating Valuations Act 1998 the territorial authority has the power either under its own volition or on an application from the owner or occupier to determine the rates postponement value of any farmland of which the value is in some way attributable to the potential use to which the land may be put for residential, commercial, industrial or other non-farming use. The rates postponement value of any land excludes any potential value at the date of valuation so as to preserve uniformity and equitable relativity with comparable parcels of farmland the valuations of which do not contain any potential value. Where farmland value has a value higher than existing use value then two valuations are required, one for the existing use and the other for the highest and best use. The difference between the rates assessed on the lower and higher values is postponed. The following conditions apply for rates postponement:

- The postponed rates become a charge on the property and become payable if the property is sold for non-farming uses;
- If the circumstances affecting the property remain unchanged for a period of five years the postponed rates over that period are written off;
- The postponement may be transferred to successive owners providing the farmland use does not change.

A further category of rating relief is available to the owners or occupiers of land where the use of the land is different from that permitted by its zoning, and where the value based on existing use is higher or lower in value than that based on the zoning i.e. the use of special ratable values. Examples of this type would tend to relate to industrial or commercial land located in rural or residential areas or residential land located in predominantly commercial or industrial areas. The special ratable value reflects the value of the property in its existing use as opposed to any higher or more intensive use. There are essentially five categories of special ratable values:

- SRVs of industrial or commercial land in residential or rural areas;
- SRVs of residential land located in commercial or industrial areas;

- SRVs of single or double unit dwellings where values are influenced by demand for multi-unit housing;
- SRVs for existing use properties;
- SRVs of land subject to special preservation conditions.

In Jamaica statutory relief is granted in those cases where the valuation takes into account a potential use of the subject land which would give a higher assessed value than the current use. An example would be where the owner (occupier) of a dwelling is in a location where the character of the location has changed from predominately residential to commercial. In this case the valuation of the parcel will reflect commercial values of the potential uses. In this case the owner must show that the house is being used as a bona fide dwelling house and the valuation of the land takes into account the potentialities of that land as suitable for any of the following types of development:

- hotel or guest house; or
- shop, office or other commercial building; or
- an industrial building; or
- a block or residential flats; or
- a type of residence which would necessitate redevelopment of the land and involve substantial capital expenditure. In this case the state of repair of the dwelling will be an important factor.

Buildings of historical or architectural importance are often valued on the basis that the current use is the only permitted use. This is notwithstanding that historic buildings, particular those situated in CBD areas, are often used for uses different to which they were originally designed and built. But it does protect them from the highest and best use concept which could incorporate a density assumption which would in normal situations require the demolition of the building and the redevelopment of the site (see Victoria's Valuation of Land Act 1960).

Other measures are used to protect rural and food production land, particularly land which is located in close proximity to urban areas. Whilst such land may have a greater value for its peri-urban potential than land of similar use and productive capacity more distant from the urban area, jurisdictions realise the social and economic losses which can be caused by land being forced out of existing agri-uses prematurely by other commercial development pressures (Horsley, 1986).

In Queensland, s.17 of the 1944 Valuation of Land Act provides that in making a valuation of the unimproved value of land exclusively used for purposes of a single dwelling house or for the purposes of farming, any enhancement in that value due to the potential for use as industrial, subdivision or any other purpose shall be disregarded irrespective of whether or not, that potential use is lawful when the valuation is made.

'Farming' means:

(i) the business or industry of grazing, dairying, viticulture, forestry, the growing of crops of any kind; or

(ii) any other business or industry involving the cultivation of soils, the gathering in of crops or the rearing of livestock;

if the business or industry represents the dominant use of the land, and:

(i) has a significant and substantial commercial purpose or character; and

(ii) is engaged in for the purpose of profit on a continuous or repetitive basis.

As with all concessions it is important that the valuation represents the 'true' value of the land relative to its permitted use (highest or best). If necessary two valuations should be provided one giving the market value and the other the current use value. Concessions and/or reliefs should preferably be administered outside of the valuation process by local government who normally have discretion to apply such tax concessions. In this context the utilisation of differential tax rates is appropriate.

Differential Rating

Rating as a system of taxation is in principle only tenuously linked to both ability to pay and use made of services. What can transform the entire equation is the power conferred upon local authorities to strike their rates on a differential basis. Rating is ultimately a political process and local authorities are extremely conscious of ensuring a fair and equitable split of the rating burden. Differential rating is therefore seen as a tool to maintain the status quo and to maintain an equitable distribution of rates. The main objective therefore of differential rating is to allow each authority to adopt the rating system in unique ways to best suit their needs. Table 23 illustrates the application of differential rates. There appears to be a trend in local authorities having the option of incorporating differential rates within their rates policy.

Table 23: Application of differential rates

Use of differential rates		
	Applied	Not applied
South Africa		X[1]
Kenya		X
Northern Territory	X	
Western Australia	X	
Queensland	X	
Victoria	X	
New Zealand	X	
Jamaica		X

1 Will be introduced with the passing of the Local Government: Property Rates Bill

Presently statutory differential rating has limited applicability in South Africa. For example, the Transvaal ordinance (s.22) states that the general rate levied on the site value of land, where that land is 'an agricultural holding' will be 100% on the pro rata site value of one hectare thereof, 25% of the pro rata site value not exceeding a further three hectares thereof, 10% of the site value not exceeding a further sixteen hectares thereof and 1% of the pro rata site vale of the remainder in excess of 20 hectares.

When the Local Government: Property Rates Bill is enacted, property tax will in principle be extended to all rural properties. The Bill therefore provides for the introduction of differential rating in combination with the introduction of property categorisation. It furthermore provides for the phasing-in of rates over a three-year period (which, in relation to some types of property (e.g. tribal land) may be extended to six years).

Tax relief through the granting of rebates is used extensively in South Africa. Most common is a rebate for residential properties and also a (further) rebate for ratepayers experiencing hardship. For example, the City of Pretoria grants a 50% rebate on property rates, sewerage and refuse removal charges for the 6,933 'poorest of the poor' households within its jurisdiction.

Differential rating is generally not allowed in Kenya. Section 10 of the Rating Act states that any site value rate (or improvement rate) shall be a rate at a uniform percentage of the rateable value of each rateable property in the municipality, township or county, as the case may be. However, on application of a rating authority, the minister responsible for local government may exempt a rating authority from the provisions of section 10.

The use of differential rates is commonplace in Western Australia, the Northern Territory and Queensland. By differentiating on the basis of zoning or use, the incidence of rates is manipulated; providing tax relief to one or more categories of property as deemed necessary by municipal councils. In Western Australia, for example, local governments that wish to provide concessions to farmland in urban areas, can classify urban farmland as a separate land use category for purposes of imposing different rates.

According to section 67 of the Local Government Act 1993 of the Northern Territory, different percentages may apply to land within different wards, towns, parts of a municipality, or zones, but within a specific ward, town, part of a municipality or zone the percentage shall be the same. Darwin City Council as well as the towns of Katherine, Tennant Creek and Alice Springs use differential rates.

In Western Australia the Local Government Act allows for the imposition of rates uniformly or differentially. Furthermore, it allows local governments to set a minimum rate. Although only some councils utilise differential rates, all councils make use of minimum rates.

A differential rate may be based on the purpose for which land is zoned, or the predominant purpose for which land is held or actually used. Before a differential rate is imposed, the local government is required to give public notice of its intention to do so. It must invite submissions from ratepayers and the electorate in general within 21 days from the date of the notice. A document explaining the objects and reasons for each proposed rate (or minimum payment) must also be made available for inspection by the electorate and ratepayers.

In the Shire of Wyndham-East Kimberley the towns (Kununurra and Wyndham) are rated on GRVs whereas the rural properties (i.e. outside the towns) are rated on UVs. Differential rates are not applied to townsites, but have recently (1999/2000) been introduced to rural property categories. A distinction is drawn between, and different rates in the A$ charged, for three categories of rural land:

- Pastoral land;
- Agricultural land;
- Mining tenements.

Differential rating is also used in Queensland, for example in the primarily rural shires of Atherton, Mareeba and Douglas.

In Victoria differential rates are currently only available for those councils using capital improved value, meaning that those councils using site value or net annual value cannot avail of differentials. It would seem that this constraint on the use of differential rating has had the effect of 'forcing' councils to change bases. However, a more equitable and ultimately fairer approach would be to allow all councils to use differential rating notwithstanding the property tax base.

In New Zealand the earliest form of differential rating was introduced in 1886 when counties were given the power to divide their area into ridings and levy different rates according to the needs of the riding. The modern form of differential rating was introduced in 1970 when the Counties Act was amended to allow differential general rating. This legislation was designed originally to alter rating burdens in rural areas or land bordering urban areas. When introduced it was restricted to only those authorities imposing land value rating and then it could only apply to the general rate. Those restrictions are now removed and authorities may apply differential rating to both separate and special rates as well as the general rate. The ability of local authorities to vary the rate in the dollar according to different categories of property is contained in the Rating Powers Act 1988. In essence, an authority may levy a rate on a differential basis so that the rates charged in respect of any one or more specified types or groups of property may vary from those rates levied for another specified or type of property (Dowse and Hargreaves, 1999).

The criteria for establishing a group or type of property for differential rating are:

- The use(s) to which the property is put;
- Zoning of the land;
- The land area;
- The situation within a particular district;
- Such other distinctions as the authority deems fit.

The wide discretionary powers of authorities to establish differential rates are not without its problems. Individual rights are protected by an objection system when rates are proposed or amended. However, there is no provision to revoke the differential rating policy once it is in force. To introduce a scheme of differential rating a resolution must be made which addresses the following issues:

- The proposed types or groups of property to be affected;

- That the proposed system has the object of establishing and preserving a stated relationship between the total proceeds of rates received from any type or group of property and any other type or group of properties;

- The general effect that the introduction will have on the incidence of rates between ratepayers, groups of ratepayers within the district or part of the district.

Computer Assisted and Mass Appraisal and Quality Control

Mass appraisal modelling techniques can take a number of forms all of which have the dual objectives of attaining acceptable standards of predictive accuracy and a high level of transparency (McCluskey, 1997). The traditional technique and probably the one in most widespread use is Multiple Regression Analysis (MRA) (Fraser and Blackwell, 1988; Jackson, 1991). However, other mass appraisal approaches have been applied quite successfully including, expert systems (Boyle, 1992; Nawawi and Gronow, 1991), artificial intelligent techniques (Borst, 1995; Tay and Ho, 1995; McCluskey et al, 1996), feedback methods (Carbone and Longini, 1977) and comparable sales analysis (Tchira, 1979; Diaz, 1990).

There is in several of the countries investigated an over reliance placed on the application of manual approaches to valuations. Whilst interim valuations can be handled this way problems do arise when a revaluation of the entire tax base is required. Constraints on manpower, finance and other resources impact on the validity of manual based revaluations. There is to some extent a correlation between those countries that have an automated valuation system and the assessment accuracy, frequency of revaluations, lower number of appeals and taxpayer understanding.

Table 24: Use of CAMA techniques

Use of CAMA Techniques			
	Full	Partial	None
South Africa			X
Kenya			X
Western Australia	X		
Northern Territory		X	
Queensland		X	
Victoria		X	
New Zealand		X	
Jamaica			X

Table 24 illustrates the application of mass appraisal techniques across the various study countries/states. What is apparent is the limited use of such processes and procedures. Computer-assisted mass appraisal is used extensively in New Zealand, Western Australia, Victoria, Queensland, and to some extent in the Northern Territory. Whilst Australia and New Zealand have embraced the significant potentialities of integrating computer assisted valuation systems others such as South Africa, Kenya and Jamaica still have some distance to go.

Until recently (October 2000) provincial legislation in South Africa still required physical inspections of each rateable property. However, an amendment to the Local Government: Municipal Structures Act now allows for the use of CAMA and discarded the need for physical inspections. Pilot studies have already been undertaken in metropolitan (Cape Town) and rural areas (in the North West and Free State provinces) (Ward, 2000).

There are also pilot projects underway in the two small towns of Mavoko and Nyeri in Kenya (Ward, 2000).

In Western Australia values are provided by using a fully computerised valuation system. (The alternative was a substantial increase in manpower to complete the task manually - which was not cost efficient.) All the analytical tools necessary for setting value levels, using property attributes, which are linked with value, charts and reference files are provided.

The development and application of CAMA approaches can be more readily utilised if valuations are provided centrally by a government agency. The use of out-sourced contract staff could well lead to the variable use of such approaches. Quality control for assessments would need to be legislated for with an independent statutory body or agency having responsibility to ensure that quality standards are maintained.

The nature of the mass appraisal system depends upon a number of factors, the quality of the existing data, valuer skills and the level of financial commitment by the valuation providers. While it may be possible to abandon land value as a basis for rating purposes, it may prove extremely difficult to derive rental values or capital improved values, if data relating to improvements is unavailable or dated. Valuations on improved value systems will require considerably more variables than if land is only to be valued, which is a factor in favour for land value as a basis for rating purposes.

Importance of Property Taxation

Within all of the countries and states investigated, the property tax represents an important and often the only tax available to local government (see Figure 6). In South Africa the importance of property tax as an own source of revenue for municipalities is increasing markedly. Both Jamaica and Kenya recognise the potential of property rating and that the coverage ratio, assessment ratio and collection ratio will have to be improved.

Figure 6: Importance of the property tax to local government 1998/99

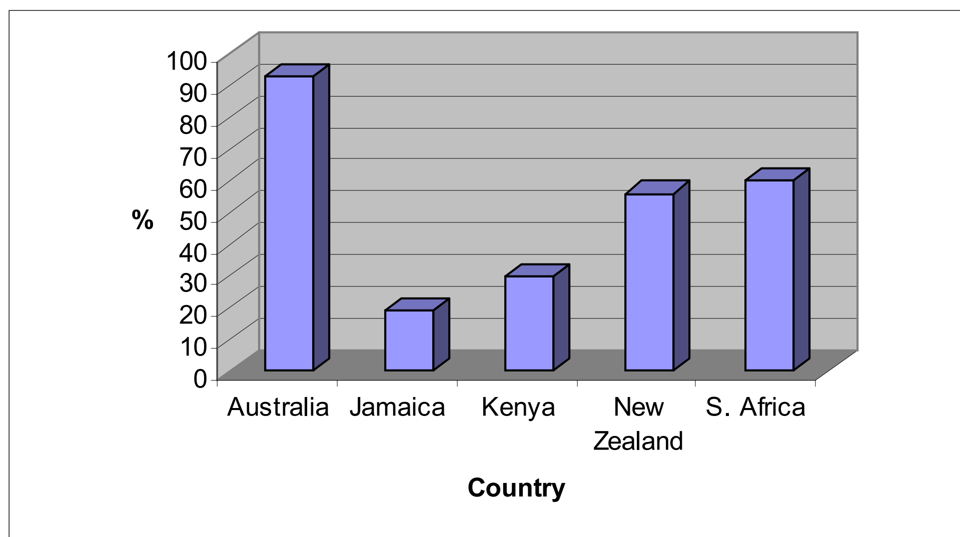


Figure 6 illustrates the relative importance of property tax revenues for local government. It is clear that local authorities in Australia rely almost exclusively on property taxes as an own source of revenue, whereas municipalities in New Zealand and South Africa on average also rely heavily on this source of tax revenue. The data used to reflect the position within each country by necessity includes tax revenue generated from all local authorities irrespective of their basis of property tax.

Movement Towards Capital Improved Value Systems

In investigating the changes in the use of property tax systems, Australia, New Zealand and South Africa present some interesting findings. These three countries are somewhat unusual in that at least three systems of property taxation are used. In addition, whilst one system may be used for municipal rates within a specific jurisdiction, the valuation roll will show all three values.

In South Africa, property taxation - including the choice of tax base - has become highly politicised in recent years. Three tax bases are presently being used, and these will presumably be retained once the Local Government: Property Rates Bill has been enacted, despite arguments (e.g. lack of sales evidence in CBD areas - especially in metropolitan areas) against the use of site rating. Differences between the various tax bases in terms of effective incidence do not seem to be well understood. South Africa seems ambivalent about moving away from site rating as a local option. A number of large urban municipalities in South Africa (e.g. Johannesburg and Pretoria) have been using site rating for many years. Cape Town recently (1997-1998) contemplated a change from capital improved rating to site rating. Although not implemented, it was clear that a change in the base would have resulted in tremendous shifts in incidence. Fear of change amongst municipal officials who are familiar with the *status quo* must also be considered.

The view is held in some circles that property tax is a wealth tax, and that therefore improvements should be taxed as well. However, there seems to be some political pressure, in the context of local autonomy, to retain the present choice of tax base. From an assessment point of view, the Property Rates Bill requires that all three values of each rateable property must be captured in the valuation roll. All three values can be appealed, despite the fact that only one (or possibly two) is (are) used as tax base - implying that local choice has an inherent administrative cost. However, limiting assessed values to 'current use' in the case of site rating may result in its demise.

In Kenya various bases are on the statute book, but only site rating is used in practice at present. Within Kenya some commentators would like to see a CIV system rather than the current SV. In Kenya, there is presently a lack of political willingness to change the basis from land value, despite arguments for change (especially from the valuers' profession).

In Australia each of the states considered have tended to evolve in somewhat different directions. In the Northern Territory for example, which is largely undeveloped, there is ample sales evidence. Despite choices available in legislation (amongst these the possible use of two bases within one jurisdiction), unimproved capital value is used throughout (except two municipalities using flat rating).

Over recent years in Western Australia most urban local governments have changed from site value to gross rental value. In a rural context, where site value has been maintained,

the value of improvements as a ratio of total capital improved value is rather insignificant. In this context it is administratively more expedient to value the site only. Whereas unimproved value in urban areas imply 'site value', in rural areas it is still assumed that the land is in its virgin state.

Queensland still retains the original 'unimproved value' however, there are indications of a migration to 'site value' particularly in urban areas, with unimproved value remaining in rural areas. The objective of migration to capital improved value systems in primarily urban jurisdictions seems to be motivated primarily by the lack of sufficient sales evidence.

In Victoria a municipality may use the site value, net annual value or capital improved value system of valuation. In order to change the current system a council must publish a public notice of its decision to change the system with a poll of voters to be taken.

Table 25: Property tax bases in Victoria

Year	CIV	SV	NAV	Municipalities
1993	12	56	142	210[1]
1995	58	8	12	78
2000	72	3	3	78

1 Number of municipalities prior to restructuring in 1994

It is clear from Table 25 that councils in recent years have been moving to capital improved value systems. Part of the reason for this shift can be explained by the legislation allowing councils to use differential rates if they move to a CIV basis.

In Australia various tax bases are used, but unimproved capital values are only exclusively used in the Northern Territory and Queensland. Elsewhere, at least in urban jurisdictions, there is clearly a move away from land value systems to capital improved value systems. (In Western Australia gross rental values are used in urban areas). Victoria would appear to be moving to adopt a uniform valuation basis throughout the state i.e. capital improved value. However, it should be remembered that all the states, irrespective of which basis is used at the local level still use site value or unimproved value as the basis for their respective land taxes.

New Zealand local authorities have over the last ten years been gradually moving away from site value. Table 26 shows the trends in percentage terms of the use of the various rating systems by local authorities in New Zealand. Clearly, land value systems were dominant up to the early 1980s when around 80% of authorities used the land value basis. However, since then it is evident of the swing towards the use of capital improved value systems.

Table 26: Property tax bases in New Zealand

Year	CV	LV	AV	LV & CV	Total (%)
1942	37	55	8	-	100
1955	27	66	7	-	100
1972	16	80	4	-	100
1985	10	80	5	5	100
1997	30	64	2	4	100

In Jamaica, site value is considered as probably the only administratively feasible property tax basis.

Legislation in all jurisdictions (except Jamaica) provides for more than one *ad valorem* property tax base. The more remote, undeveloped and sparsely populated a jurisdiction seems to be, the less the impact that the added value of improvements could have on the size of the tax base. Furthermore, sales evidence is generally available. Under these circumstances any *ad valorem* tax base is limited, infrastructure and service provision costly and, therefore, grant funding generally predominant. This implies that there is no pressing need to change to a capital improved system.

Advantages and Disadvantages of a Land Value Tax

Apart from the possible economic advantages as proclaimed by Henry George and other writers a tax on the unimproved (i.e. site/land) value is professed to have the following advantages:

- It will improve the efficiency of urban land use (Bahl and Linn, 1992; Bahl, 1998), by creating the incentive to develop the land to its most efficient (highest and best) use. If the taxes on land not yet improved are high enough the owner of that land has a strong incentive to put that land to use to earn an income to meet the tax. If the owner cannot put the land to use he may as an alternative sell to someone who will (Brown, 1967). As a corollary to the preceding point, if land is under-utilised a heavy tax imposition will force it into its most valuable use.
- Land value taxation is seen as a suitable instrument for recovering that element of land value created by the community. Development including infrastructure provision undertaken by the community tends to increase the value of other privately owned land. These land owners have benefited in an increase in their wealth though have done nothing to earn it. Therefore the land tax is recognised as an important mechanism for collecting these unearned increments (Hipgrave, 1966).
- Administrative simplicity is an important advantage of land taxation (K'Akumu, 1999). Difficulties in factoring out land values from sparse transactions is to a certain extent more than offset by other administrative advantages. Available sales can be

mapped enabling values between benchmark parcels to be interpolated (Woodruff, 1967).

- By excluding improvements, the assessment process is less constrained and demanding, as it requires fewer inspections (e.g. to record building alterations), and more cost effective (Woodruff, 1967; Bahl, 1998; McCluskey and Williams, 1999; Dowse and Hargreaves, 1999). Land values are more easily determined as there are fewer factors to be included within the valuation process given that the effect of improvements has been removed.
- The practice of concealing the construction, alteration or addition to existing premises as a means of reducing the tax burden is not encountered.
- There are better possibilities for mass appraisal making revaluations less onerous as the base is less complex and more uniform without improvements (Bahl, 1998).
- The system may discourage speculation in land to the extent that the cost of holding idle land is made prohibitive by the tax levy (Woodruff, 1967). Real estate and land have long been looked upon as the best hedges against the impact of inflation. As Mill said 'it is the easiest way to make money, for landlords to grow rich in their sleep without working, risking or economising'. Land hoarding for speculative reasons is an important factor in the creation of urban sprawl. Developers find it necessary to pass-over inner urban sites in order to find less expensive land in the suburbs. Often, inner city land is not over priced but simply not for sale since speculators are holding it off the market in anticipation of greater profits in the future. Land speculation thwarts effective urban planning and renewal. Vacant undeveloped parcels often occupy prime land. Improved value systems encourages the owners of such land to withhold it from the market because this land is either lightly taxed or not taxed at all.
- Land value encourages the earlier development of sites simply because it taxes future returns in advance of their receipt. Therefore, it makes it relatively more expensive to hold idle land in anticipation of future returns (Mills, 1981; Ladd, 1998). The site value tax is also neutral with regard to the intensity of the use of particular sites. The owner will be obliged to ensure that his land is optimally developed; whilst this will not reduce the site tax it will reduce the burden in relative terms.
- Land is permanent and the rental value of land is relatively stable; by contrast, capital values are more volatile, being dependent on short term factors such as interest rates. In addition, improvements i.e. buildings can be rendered unusable for property tax avoidance purposes which is quite different to a tax on the land only.
- Land value is in accord with the benefit principle of taxation. The value of land is the market value of the location, it is essentially what people are prepared to pay for the benefits which are available at that site in terms of location, amenities etc.
- It would have substantial effects on the incentives to develop and improve land. It would make possible a greater participation of scarce land resources in the urban and sub-urban real estate market. By utilising land in accordance with market forces and

demand, instead of ignoring this demand in anticipation of ever greater unearned increments.

A land value tax system has a number of disadvantages:

- It provides the taxing authority with a restricted tax base, excluding a substantial degree of wealth, especially in well-developed areas and can only produce sufficient revenue at high rates. Buildings contain an appreciable degree of value, particularly in central business districts, which under land value taxation escapes taxation. The exclusion of improvements also means that the tax base has considerably less flexibility than under improved value systems (Bahl, 1998; McCluskey and Williams, 1999).
- It is difficult to separate the value of the land from the value of the improved property. Whilst it is clearly not impossible to derive land values from improved value sales problems do arise when such derived values have to be defended before a tribunal. The use of extrapolation methods to blanket cover an area or region based upon sparse data is divorcing an ad valorem tax from the market.
- Valuing land in a built-up environment with no or few transactions, necessitating the extraction of land values from improved value sales makes the process a more subjective and cumbersome exercise (Bahl, 1998; McCluskey and Williams, 1999).
- Explaining the system to ratepayers who are generally intuitively aware of the improved values of their properties.
- It does not reflect ability to pay as well as a capital improved value system (Marten, 1999; Dowes and Hargreaves, 1999).
- It penalises the holding of accommodation land when a change of use is not yet economic (Risden, 1979).
- It would tend to bring about development in peripheral areas and increase pressure on urban fringe land.
- It can create undesirable development particularly where the planning system is not operating efficiently.

PART IV: Conclusions

From this international review of five countries a number of general observations can be drawn with regard to the use and application of land value systems as a basis of property taxation and as a source of local government finance.

- The system is a well established and an accepted form of property taxation in Jamaica, Western Australia (rural areas), Queensland, Northern Territory, South Africa, New Zealand and Kenya.
- In South Africa, Kenya, Victoria, New Zealand and Western Australia local authorities have the option to choose between property tax bases. This choice is either effected by a poll of taxpayers within the local authority area or based on a detailed analytical review undertaken by the local authority.
- In South Africa, Kenya, Victoria, New Zealand the valuation list/roll must contain the three values of land value, capital improved value and the value of improvements. This information gives local authorities the base information upon which empirical studies can be undertaken when considering the most appropriate property tax base for their jurisdiction. However, in maintaining this level of information there is an obvious cost in preparing three values for each taxable property.
- In Victoria and New Zealand where local authorities are exercising their power of tax base choice there are significant trends towards using capital improved systems.
- The possibility of countries and/or states moving to a nation-wide uniform property tax base is actively being considered in South Africa, New Zealand and Victoria.
- The preparation of assessments is a central government/state government function in Jamaica, Western Australia, Queensland and Northern Territory. Whereas in Victoria, Kenya, New Zealand and South Africa the assessment function is under the control of the local authority who either have in-house valuation departments or contract to the private sector.

South Africa

When the Local Government: Property Rates Bill is enacted, it will bring about substantial reforms to the property tax dispensation in South Africa. However, despite earlier calls for a uniform tax base, the Bill retained the present three property tax bases (including site rating), as well as municipalities' freedom of choice to choose any one of these systems.

Although the future of site rating seems to be secure, the manner in which site values must be assessed (in effect with reference to current use only), will probably result in a migration to capital improved values as the preferred tax base. The South African Institute of Valuers, representing the valuers' profession, officially also support capital improved values as the preferred tax base, citing lack of public understanding of a land value system, as well as the lack of vacant sales within CBD areas as primary reasons. However, certain interest groups argue against the taxation of improvements, claiming

that it would stifle development or even result in the demolition of existing improvements (e.g. farm labourer dwellings).

Kenya

Despite various statutory options, Kenyan local authorities presently use only site rating. Various commission reports as well as members of the valuers' profession have argued for the inclusion of improvements in the tax base. Although the property tax system is presently in disarray, this is rather the result of outdated valuation rolls, corrupt officials and inefficient billing, collection and enforcement practices, rather than inherent deficiencies as far as site value tax as preferred tax base is concerned.

Northern Territory

The future of unimproved values as preferred tax base seems secure, as only two councils use a so-called 'flat rate' per rateable property (irrespective of size or value), whilst all other local governments with rating powers use site value ('unimproved capital value') – despite various statutory options being available. There are presently no reform initiatives to change the *status quo*.

Western Australia

All parcels situated within a townsite are valued on the basis of gross rental value (GRV). In some outer metropolitan areas, non-residential land parcels (primarily hobby farms) are valued on the basis of unimproved values (UVs). Rural land within shire councils is valued on the basis of UVs. In urban areas, UV refers to the site value (i.e. merged improvements are included), whereas in rural areas the land is assumed to be in a virgin state.

The paucity of vacant land sales within the Perth Metropolitan Region and the ample evidence regarding rentals within urban areas throughout the State are cited as reasons for the migration from 'site value' to GRV as tax base for urban land parcels.

The State Revenue Department still uses UVs for purposes of the state land tax, and all land parcels (in excess of 740,000) throughout the State are valued on this basis annually. There are presently no indications that the State government is contemplating any changes to the UV tax base.

Queensland

The Committee of Inquiry into Valuation and Rating (1989) considered that a tax on real property was the most appropriate general or basic source of local government revenue. This committee considered the two alternatives upon which a property tax should be levied firstly, a tax on improved properties or secondly, a tax upon the land element only.

The recommendation of the Committee was that rating on the unimproved value of land was the most efficient and equitable revenue option. It also found that a land tax induces the development of land for its best and most intensive permissible use and is an effective mechanism for achieving a city's town planning objectives.

Since the turn of the century local government rates in Queensland have been levied on the unimproved capital value of properties. For valuers the difficulties and anomalies associated with unimproved value are increasing with the passage of time. For example, improvements such as leveling, clearing and filling carried out many years previously are becoming virtually impossible to identify. Other Australia states have adopted the concept of 'site value'. This means the value of land including improvements which have merged with it over time because they have become permanent; require no maintenance; and for all practical purposes have merged with the land and become invisible. For the purposes of assessing the rateable value of land, such improvements should be deemed to have merged with the land after a period of ten years or upon its prior sale.

The adoption of the concept of 'site value' in place of unimproved value would have the advantage of eliminating a misleading concept from the rating system. It is clear that the term 'unimproved value' is not generally understood by the taxpaying community and that the hypotheses upon which such a value has to be ascertained are confusing. Therefore, the phrase 'site value' should ideally be adopted in place of unimproved value. The Committee of Inquiry (1989) on the matter of the efficacy of unimproved value as the tax basis concluded that site value should be adopted for Brisbane where a predominantly urban environment prevails. For the remainder of the state unimproved value should continue to be applied.

A Review of the State's Valuation System (1996) was undertaken where it was found that there was a sound argument for adopting site value given this was the component of land being traded in the market. Given that site value is the generally accepted method of valuation in most of the other states a move to this basis particularly for urban areas would seem logical.

It is clear that unimproved value is well established and accepted in Queensland. The various reviews and committee's of inquiry have unanimously concluded that unimproved value should remain as the basis for local government property tax. However, there is a need to consider adopting land/site value for urban areas given the valuation difficulties and complexities of applying unimproved value.

Victoria

Since 1989 local authorities have had the power to adopt one of three valuation bases upon which to levy property taxes i.e. site value, net annual value and capital improved value. Prior to 1989 local government effectively had a choice between site value and net annual value. With the ability to adopt capital improved value it is interesting how local government in the State has been moving between the various bases.

In 1993 only 6% of local authorities used CIV with the majority, some, 67% using NAV. By 1995 the majority of local authorities in the State had elected to switch to CIV and by 1998, 86% were using CIV. This was a dramatic change over a short period of time. A number of reasons could explain this firstly, most authorities perceive CIV to represent the most appropriate form of tax base upon which to levy property taxes and secondly, incentives are being offered to local authorities to switch to capital improved systems in terms of being able to use differential rating powers. Such powers are not available to councils who use site value or net annual value. An underlying motivation here is that the State government would ideally like to have all local authorities adopting a uniform system of property taxation. In terms of the redistribution of state grants from the Grants Commission it makes the calculations somewhat more transparent if all councils adopt the same valuation basis.

New Zealand

Land value taxation in New Zealand has a long established pedigree. Land values have been taxed under three main regimes (i) the sale and lease of Crown land, (ii) national land tax, and (iii) land rates for local government. The national land tax which was introduced in 1878 survived until 1990 when it was abolished. Land value rating however, still remains the principal form of local authority taxation with more than half of the territorial authorities utilising it. However, when analysing the historic trends in the use of tax systems it is clearly evident that there is a noticeable swing away from land value to capital improved value. Whether New Zealand moves to a uniform basis of rating is a question that has been raised on a number of occasions. The general opinion is that the *status quo* will be retained unless there is compelling evidence for one base as a means of recovering costs. An interesting option however, is being considered, that is giving local authorities the power to apply different rates on improvements to that on the land.

From 1 July 1998 the former government valuation department, Valuation New Zealand (VNZ) has been transformed to comprise of the Office of the Valuer-General, which will have a standard setting, auditing and advisory function and a crown-owned company, Quotable Value New Zealand. This new company competes in the market place for local authority property tax valuation work. Previously, VNZ had the responsibility to maintain the national rating database, which was extremely comprehensive and contained the site value, value of improvements and capital improved value for each property. As territorial authorities now have responsibility to maintain the rating database, generally it is anticipated that councils may only have to maintain those records of the tax base necessary to support the funding tools they have chosen to use. It is possible that those councils which do not wish to use any form of capital value rating might not have to maintain and pay for capital value records to be kept. This could have a significant effect, particularly, if data is not maintained and regularly refreshed it becomes extremely expensive to re-capture this information. In reaching a final decision, the Government will need to take into account any significant rating policy or legislative compliance

issues that favour a retention of the requirement for local authorities to maintain capital values.

Jamaica

Unimproved value taxation in Jamaica is of relatively recent origin having first been implemented in 1956; although its use was recommended by the earlier Bloomberg Commission (1943) which was established to inquire into the problems of property valuation and taxation in Jamaica. It is clear that the system of unimproved valuation has been a relative success in Jamaica when measured against the uniformity of assessments and the general acceptance of the system by the taxpaying public. The experience in Jamaica is some evidence in support of the feasibility of site value taxation in terms of administrative and valuation practicalities. The system is now well established with the valuation infrastructure developed to provide land value assessments. As little information is held on improvements, it would seem highly unlikely that an improved value system could be economically introduced.

In evaluating Jamaica's experience a distinction should be drawn between the administration of the land tax and its economic achievements. As Holland (1966) stated 'it is one thing to fashion a system that will tax unimproved value successfully; it is quite another to accomplish the goal of development'. The situation in Jamaica is a good example of where each and every residential property is unique in terms of the improvements made. Whilst the improvements differ significantly, in contrast, the land parcels are much more homogeneous. A capital improved system would be very difficult to implement particularly from a mass appraisal perspective given the structure of the residential property market and the resources which would have to be mobilised to collect data on improvements.

The Land Valuation and Estates Department, a country-wide government department, has been responsible for land value assessments since 1956 and during this time has developed trained staff and a wealth of experience in administering this form of property taxation. A key development which will have an important effect on land valuation is the Land Administration and Management Project (LAMP). This project was established from 1997 to promote the efficient administration and management of land resources in Jamaica in an integrated and sustainable manner. The project will facilitate the modernisation of all facets of land administration including the establishment of a national GIS network, the creation of digital maps, the development of a national cadastre to create the platform for a systematic programme of land titling. The creation of island-wide digital maps will result in increased efficiencies with the administration of the land tax. The planned 2000 revaluation will clearly benefit from these new developments, the results of which should prove to be worthy of further research.

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Appendix 1: Legal definitions

The statutory basis for making valuations for rating and tax purposes is quite varied. While there is a certain degree of similarity between a number of the statutory definitions in several of the countries each has through time evolved to suit particular local differences.

This appendix to the study provides details on the principal legislative definitions in relation to the key components of land value systems.

South Africa

The various definitions for rating are contained in the Local Government: Property Rates Bill 2000.

Improved value

In relation to property, means the value of property including improvements. It is an amount equal to what the property would have realised if sold on the date of valuation in the open market by a willing seller to a willing buyer.

Improvements

Means any land and any building attached to land, whether removable or not, or any other immovable structure in, on or under the land or pertaining to a right in property, excluding:

(i) a structure constructed solely for the purpose of rendering the land suitable for the erection of any immovable structure thereon; and

(ii) and underground building attached to the land, whether removable or not, or any other immovable underground structure on land which is the subject matter of any mining authorisation or mining right as defined in the Minerals Act 1991.

Value of improvements

The value of improvements must be determined by subtracting the site value of the property from its improved value.

Site value

Means the value of the property excluding the value of improvements. It is an amount equal to what the property would have realised if sold on the date of valuation in the open market by a willing seller to a willing buyer but on the assumption that:

(i) there are no improvements to the property; and

(ii) only the existing improvements may be erected on the property.

Property value

In determining the value of a property:

(i) the value of the property as enhanced by any license or privilege relating to the property must be included; and

(ii) the value of any improvement on the property that was erected or is being used in contravention of a condition of title or any legislation, including a provision of a town planning scheme, must be included as id the improvement was erected or is being used lawfully.

Kenya

The primary legislation in Kenya is the Valuation for Rating Act (Chapter 266) 1956 and the Rating Act (Chapter 267) 1963.

Improvements

Improvements in relation to land, means all work done and materials used on, in or under that land by the expenditure of money or labour in so far as the effect of the work done or material used is to increase the value of the land, but does not include machinery, whether fixed to the soil or not.

Unimproved value

The value of unimproved land shall, for the purposes of a valuation roll, be the sum which the freehold in possession free from encumbrances might be expected to realise at the time of valuation if offered for sale on such reasonable terms and conditions as a bone fide seller might be expected to impose, and if the improvements, if any, therein or thereunder had not been made.

Due regard is also had not only to that particular land, but also to other land of similar class, character or position, and to other comparative factors, and to any restrictions imposed on the land, and on the use of the land, by the local authority or town planning authority which either increase or decrease the value of the land.

Value of improvements

Where a valuation roll includes the value of unimproved land, the value of any improvements and the value of land, then the value of improvements shall in no case exceed the amount found by deducting the value of the unimproved land from the value of the land.

Northern Territory

Although the Local Government Act, read with the Valuation of Land Act, provides for three possible *ad valorem* tax bases (i.e. unimproved capital value, improved capital value and annual value), only unimproved capital value is presently utilised. In this context the following definitions in the Valuation of Land Act 1963 are relevant:

Improvements

Improvements, in relation to land, means improvements on or appertaining to the land. whether visible or invisible and whether made or acquired by the owner or a predecessor in title of the owner, and includes any destruction of suckers and seedlings that is incidental to the destruction of other vegetable growths and animal pests on the land to the extent only to which the destruction retains its effectiveness, but does not include the destruction by a person of any vegetable growths or animal pests that are allowed to establish themselves on the land during his ownership except to the extent, if any, to which that destruction consists wholly or partly of the further destruction of any vegetable growths or animal pests which, after apparently being destroyed, are again allowed to establish themselves on the land.

Site improvements

Site improvements, in relation to any land, means improvements on the land that consist of:

(a) the reclamation of any part of the land by draining or filling and the erection of retaining walls, and the carrying out of other works, for the purposes of reclamation; or

(b) the excavation, grading or levelling of any part of the land otherwise than for the purpose of irrigation or conservation...

Unimproved capital value

In subsection 9 'unimproved capital value' is defined as follows:

(1) For the purposes of this Act, the unimproved capital value of land (other than stratum) is:

(a) the capital sum which the fee simple of the land might be expected to realise if offered for sale on such reasonable terms and conditions as a seller in good faith would require, assuming that any improvements, other than site improvements, on or appertaining to the land had not been made; or

(b) the sum which would be obtained by deducting the value of any improvements, other than site improvements on or appertaining to the land, from the improved capital value of the land,

whichever is the greater.

(2) Notwithstanding anything in sub-section (1), in determining the unimproved capital value of any land under that subsection it shall be assumed that -

(a) the land may be used or continued to be used for any purpose for which it was being used or could be used at the date to which the valuation relates; and

(b) such improvements on or appertaining to the land are made or continued as are necessary to enable the land to be or continue to be so used,

but nothing in this subsection prevents regard being had in determining that value to any other purpose for which the land may be used on the assumption that the improvements, other than the site improvements, on or appertaining to the land had not been made.

(3) For the purpose of this section, the value of improvements on or appertaining to the land is the added value which the improvements, other than site improvements, give to the land, irrespective of the cost of the improvements, including in such added value the value of any licence granted and in force under the *Liquor Act*, the value of which has been included in the improved capital value of the land.

Section 8C of the Land Valuation Act provides separately for the determination of the unimproved capital value of a 'stratum'. A 'stratum' is defined in section 4 as 'a part of land consisting of a space or layer below, on or above the surface of the land, or partly below and partly above the surface of the land, defined or definable by reference to improvements or otherwise, whether the dimensions of the space or layer are unlimited or whether all of the dimensions are limited, but refers only to a stratum rateable or taxable under an Act'.

Western Australia

In Western Australia the relevant definitions are found in the Valuation of Land Act (which must be read with the Local Government Act 1995).

Gross Rental Value (GRV)

A gross rental value is the total rental a property can achieve over a 12-month period.

Unimproved Value

Unimproved value is the market value of a land (a lot) assuming that no physical improvements have ever been made to it, but assuming that the surrounding land is indeed developed as it stands at the date of valuation. What is being valued, is a 'vacant lot'. However, through the passage of time, pure unimproved value has become unworkable for 'townsite' land, in other words, in an urban environment. Improvements that were made when the land was being developed for sale, have effectively merged with the land to such an extent that they cannot be separately identified.

Improvements

In relation to land means the value of all works actually effected to land, whether above or below the surface and includes fixtures, but does not include, machinery, whether fixed to the land or not, or any below ground works used in the extraction of minerals or petroleum.

Merged improvements

Merged improvements means any works in the nature of draining, filling, excavation, grading or levelling of the land, retaining walls or other structures or works for that purpose, the removal of rocks, stone or soil, and the clearing of timber, scrub or other vegetation.

Site value

Site value of land means the capital amount that an estate of fee simple in the land might reasonably be expected to realise upon sale assuming that any improvements to the land, other than merged improvements, had not been made and, in the case of land that is reserved for a public purpose, assuming that the land may continue to be used for any purpose for which it is being used or could be used at the date of valuation.

Capital value

Capital value of land means the capital amount which an estate of fee simple in the land might reasonably be expected to realize upon sale – provided that where the capital value of land cannot reasonably be determined on such basis, the capital value of such land shall be the sum of, first, the unimproved value of the land, and secondly, the estimated replacement cost of improvements to the land after making such allowance for obsolescence, physical depreciation, and such other factors as are appropriate in the circumstances.

Vacant land

Vacant land means land on which there are no improvements other than merged improvements.

Queensland

The Queensland Valuation of Land Act 1944, as amended, defines unimproved value in relation to both unimproved and improved lands.

Unimproved value

(i) In relation to unimproved land, the capital sum which the fee simple of the land might be expected to realise if offered for sale on such reasonable terms and conditions as a bona fide seller would require; and

(ii) In relation to improved land, the capital sum which the fee simple of the land might be expected to realise if offered for sale on such reasonable terms and conditions as a bona fide seller would require, assuming that, at the time as at which the value is required to be ascertained for the purposes of this Act, the improvements did not exist. Provided that the unimproved value shall in no case be less than the sum that would be obtained by deducting the value of the improvements from the improved value at the time as at which the value is required to be ascertained for the purposes of this Act.

Section 12 (1A) states that:

Notwithstanding anything contained in this section, in determining the unimproved value of any land it shall be assumed that:

(i) the land may be used, or may continue to be used, for any purpose for which it was being used, or for which it could be used, at the date to which the valuation relates;

(ii) such improvements may be continued or made on the land as may be required in order to enable the land to be continued to be so used.

But nothing in this subsection prevents regard from being had, in determining that value, to any other purpose for which the land may be used on the assumption that any improvements referred to in subsection (1) of this section had not been made.

Section 12(2) states:

Improved value

Improved value means, in relation to land, the capital sum the capital sum which the fee simple of the land might be expected to realise if offered for sale on such reasonable terms and conditions as a bona fide seller would require.

Value of improvements

The value of improvements means, in relation to land, the added value which the improvements give to the land at the time as at which the value is required to be ascertained for the purposes of this Act, irrespective of the cost of the improvements, including in such added value the value of any hotel license the value of which has been included in the improved value.

Provided that the added value shall in no case exceed the amount that should reasonably be involved in effecting, at the time as at which the value is required to be ascertained for the purposes of this Act, improvements of a nature and efficiency equivalent to the existing improvements; and

Improvements

Improvements means, in relation to land, improvements thereon or appertaining thereto, whether visible or invisible, and are made or acquired by the owner or his predecessor in title, and includes all such destruction of suckers and seedlings as is incidental to the destruction of timber and also includes the destruction of other vegetable growths and of animal pests on the land to the extent to which such destruction retains its utility, but does not include the destruction by any person of such growths or pests which are allowed to establish themselves on the land during his ownership, except to the extent (if at all) to which it restores wholly or partly so much of the utility of a previous improvement in the nature of the destruction of such growths or pests as is, by the subsequent provisions of this definition, deemed to have been lost, and any improvement consisting of the destruction of such growth or pests, by whomsoever the same may be effected, shall be deemed to have lost its utility to the extent to which, after it has been made, other growths or pests (as the case may be) are allowed to establish themselves on the land.

Provided that in the determination of the unimproved value of the land the term does not include invisible improvements other than timber treatment, where such invisible improvements have been made by the Crown (including a statutory body representing the Crown), a local authority or a Harbour Board.

A number of significant amendments have been made to the Act in recent years. Some of these in summarised form are listed below:

(i) A valuation of the unimproved value of land shall take into account the existence and effect of any easement, registered under any Act, in respect of which such land is the dominant or the servient tenement.

(ii) A valuation of the unimproved value of any land shall not include the value of any timber on or any metals, minerals or coal in the land.

(iii) In determining the unimproved value of land used exclusively for purposes of a single dwelling house or for the business of primary production, any enhancement in that value because the land has a potential use for industrial, sub-division or any other purposes shall be disregarded irrespective of whether or not that potential use is lawful when the valuation is made.

In the case of an improved property it must be assumed that all improvements on the land do not exist at the given date. However, any improvements to the land i.e. roads, power, telephone, sewerage etc. are taken into account. In other words surrounding infrastructure is reflected in the unimproved value.

Victoria

The legislation governing rating in Victoria is contained in the Valuation of Land Act 1960.

Capital improved value

Means, the sum which the land, if it were held for an estate in fee simple unencumbered by any lease, mortgage or other charge, might be expected to realise at the time of the valuation if offered for sale on such reasonable terms and conditions which a genuine seller might in ordinary circumstances be expected to require.

Improvements

For the purposes of ascertaining the site value of land, means all work actually done or material used on and for the benefit of the land, but in so far only as the effects of the work done or material used increases the value of the land and the benefit is unexhausted at the time of the valuation. Improvements do not include the following:

(i) work done or material used for the benefit of the land owned by the Crown or by any statutory public body; or

(ii) the removal or destruction of vegetation or the removal of timber, rocks, stone or earth; or

(iii) the draining or filling of the land or any retaining walls or other works appurtenant to the draining or filling; or

(iv) the arresting or elimination of erosion or the changing or improving of any waterway on or through the land.

Unless those improvements can be shown by the owner or occupier of the land to have been made by that person or at that person’s expense within the fifteen years before the valuation date.

Value of improvements

In estimating the value of improvements on any land for the purpose of ascertaining the site value of the land, the value of the improvements is the sum by which the improvements on the land are estimated to increase its value if offered for sale on such reasonable terms and conditions as a genuine seller might in ordinary circumstances be expected to require.

Site value

Of land means, the sum which the land, if it were held for an estate in fee simple unencumbered by any lease, mortgage or other charge, might in ordinary circumstances be expected to realise at the time of the valuation if offered for sale on such reasonable terms and conditions as a genuine seller might be expected to require, and assuming that the improvements, if any, had not been made.

New Zealand

The general form of the land and rating system which currently operates allows rating in individual authorities to be based on any one of the three types of valuation namely, unimproved value, capital value and annual rental value. Actually under the Rating Powers Act 1988 section 94 there is a fourth basis i.e. an area system (based on an amount for each hectare of ratable land) however, this can only be used for land drainage and water race purposes.

Unimproved value

During the early days of local government, there was a reasonable volume of market evidence which enabled a proper valuation of property based on a true unimproved value basis. However, the concept of valuing land on the basis of its original state became increasingly unrealistic. Eventually the Valuation of Land Act 1951 was amended in 1970 to provide for the progressive elimination of 'unimproved value' as a basis for local taxation and for its replacement by 'land value'. Land value now includes the following 'invisible' improvements made to the land, drainage, excavation, filling or reclamation of land, grading or leveling, removal or destruction of vegetation, alteration of soil fertility and the elimination of flooding.

Land value

Land value in relation to any land, means the sum which the owner's estate or interest therein, if unencumbered by any mortgage or other charge thereon, might be expected to realise at the time of valuation if offered for sale on such reasonable terms and conditions as a bona fide seller might be expected to impose, and if no improvements had been made. (Section 2, The Valuation of Land Act 1951)

Improvements

Improvements in relation to any land, means all work done or material used at any time on or for the benefit of the land by the expenditure of capital or labour by any owner or occupier in so far as the effect of the work done or material used is to increase the value of the land and the benefit is unexhausted at the time of valuation.

Provided that the work done or material used on or for the benefit of the land by the expenditure of capital or labour by any owner or occupier in the provision of roads or streets, or in the provision of water, drainage, or other amenities in connection with the sub-division of the land for building purposes shall not be deemed to be improvements on that land or any other land.

Other improvements which are deemed to be indistinguishable from the land are deemed to be part of the land value include:

(i) the draining, excavation, filling or reclamation of land, or the making of retaining walls in pursuance to the forgoing;

(ii) the grading or leveling of land or the removal of rocks, stone, sand or soil;

(iii) the removal or destruction of vegetation;

(iv) the alteration of soil fertility or the structure of the soil;

(v) the arresting or elimination of erosion or flooding.

Value of improvements

Means the added value which at the date of valuation the improvements give to the land.

Annual value

Annual value in relation to any ratable property, means the rent at which the property would let from year to year, after deducting 20 per cent in the case of houses, buildings and other perishable property, and 10 per cent in the case of land and other hereditaments; but in no case shall it be less than 5 per cent of the capital value of the fee simple of the property.

Capital value

Capital value of land means the sum which the owner's estate or interest therein, if unencumbered by any mortgage or other charge, might be expected to realsie at the time of valuation if offered for sale on such reasonable terms and conditions as a bona fide seller might be expected to realise.

Jamaica

All land in Jamaica is valued in accordance with unimproved value as defined in the Land Valuation Act 1956. Valuations are based on the market value of the land, that is, the price you would expect to receive if you were selling the land alone. This disregards the value of any improvements on the land, such as buildings or crops. Within the valuation exercise the following factors are taken into account, area of parcel, location, use, land prices in the area, zoning, development potential, topography, land capabilities. The following statutory definitions prescribe the nature of the interest to be valued. The various definitions relating to the value base are contained in the Land Valuation Act 1956 (Law 73 of 1956, came into force on 18 January 1957).

Unimproved value

(i) in relation to unimproved land the capital sum which the fee simple of the land together with any license or other right or privilege (if any) for the time being affecting the land, might be expected to realise if offered for sale on such reasonable terms and conditions as a *bona fide* seller would require;

(ii) in relation to improved land the capital sum which the fee simple of the land might be expected to realise if offered for sale on such reasonable terms and conditions as a *bona fide* seller would require, assuming that at the time as at which the value is required to be ascertained for the purposes of this Act the improvements as defined in this Act do not exist. (Section 2, Land Valuation Act 1956).

Improvements

In relation to land means those physical additions and alterations thereto and all works for the benefit of the land made or done by the owner or any of his predecessors in title which, as at the date on which the improved or unimproved value is required to be ascertained, has the effect of increasing its value:

Provided that:

(i) the destruction or removal of timber or vegetable growth;

(ii) the draining, filling, excavation or reclamation of land;

(iii) the making of retaining walls or other similar works necessary designed to arrest or prevent erosion or flooding of land; or

(iv) the grading or leveling of the land.

shall not be regarded as improvements

The law distinguishes between unimproved and improved land.

Improved land

Land on which improvements as defined in the Act have been effected.

Improved value

In relation to land the capital sum which the fee simple of the land together with any licence or other right or privilege (if any) for the time being affecting the land, might be expected to realise if offered for sale on such reasonable terms and conditions as a *bona fide* seller would require.

Unimproved land

Land on which no improvements as defined in the Act have been effected.

The importance of the proviso that 'clearing' of land is not an improvement, is an important one, since in the valuing of land it is not necessary to investigate the actual state of the land before it was cleared, thus avoiding possible areas of dispute as to the original state of the land.

In determining the unimproved value, the Commissioner may assume that:

(i) the land may be used, or continue to be used, for any purpose for which it was being used or could have been used at the time as at which the value is required to be ascertained;

(ii) such improvements as may be required in order to enable the land to be so used or continue to be so used, will be made or continue to be made;

Therefore, unimproved value does not mean strict adherence to current use, but rather all the advantages that the land possesses, present or future, may be taken into consideration.

The unimproved value shall not be less than the sum obtained by deducting the value of the improvements from the improved value. Where the value of the improvements in relation to land, is defined as that added value which the improvements give to the land, irrespective of the cost of the improvements.

Value of improvements

In relation to land the added value which improvements give to the land at the time as at which the value is required to be ascertained for the purpose of the act irrespective of the cost of the improvements. (added value)

Provided that the added value shall in no case exceed the amount that should reasonably be involved in effecting, at that time as at which the value is required to be ascertained

for the purposes of the act, improvements of a nature and efficiency equivalent to the existing improvements. (replacement cost).

Appendix 2: Relevant legislation

South Africa

Local Authorities Ordinance 25 of 1974 (Natal)

Local Authorities Rating Ordinance 11 of 1977 (Transvaal)

Local Government Ordinance 8 of 1962 (Orange Free State)

Municipal Ordinance 20 of 1974 (Cape)

Property Valuation Ordinance, 1993 (Cape)

Local Government: Property Rates Bill 2000

Kenya

Valuation for Rating Act 1956

Rating Act 1963

Australia

Northern Territory

Local Government Act 1993

Valuation of Land Act 1963

Western Australia

Local Government Act 1995

Valuation of Land Act 1978

Queensland

Local Government Act 1993

Valuation of Land Act 1944

Victoria

Local Government Act 1989

Valuation of Land Act 1960

New Zealand

Rating Powers Act 1988

Valuation of Land Act 1951

Jamaica

Land Taxation Relief Act 1959

Land Valuation Act 1956