

**International Studies Program
Working Paper 06-45
December 2006**

**The Feasibility of Site Value
Taxation**

Riël CD Franzsen
William J McCluskey



**International Studies Program
Working Paper 06-45**

The Feasibility of Site Value Taxation

**Riël CD Franzsen
William J McCluskey**

December 2006

International Studies Program
Andrew Young School of Policy Studies
Georgia State University
Atlanta, Georgia 30303
United States of America

Phone: (404) 651-1144
Fax: (404) 651-4449
Email: ispaysps@gsu.edu
Internet: <http://isp-aysps.gsu.edu>

Copyright 2006, the Andrew Young School of Policy Studies, Georgia State University. No part of the material protected by this copyright notice may be reproduced or utilized in any form or by any means without prior written permission from the copyright owner.

International Studies Program Andrew Young School of Policy Studies

The Andrew Young School of Policy Studies was established at Georgia State University with the objective of promoting excellence in the design, implementation, and evaluation of public policy. In addition to two academic departments (economics and public administration), the Andrew Young School houses seven leading research centers and policy programs, including the International Studies Program.

The mission of the International Studies Program is to provide academic and professional training, applied research, and technical assistance in support of sound public policy and sustainable economic growth in developing and transitional economies.

The International Studies Program at the Andrew Young School of Policy Studies is recognized worldwide for its efforts in support of economic and public policy reforms through technical assistance and training around the world. This reputation has been built serving a diverse client base, including the World Bank, the U.S. Agency for International Development (USAID), the United Nations Development Programme (UNDP), finance ministries, government organizations, legislative bodies and private sector institutions.

The success of the International Studies Program reflects the breadth and depth of the in-house technical expertise that the International Studies Program can draw upon. The Andrew Young School's faculty are leading experts in economics and public policy and have authored books, published in major academic and technical journals, and have extensive experience in designing and implementing technical assistance and training programs. Andrew Young School faculty have been active in policy reform in over 40 countries around the world. Our technical assistance strategy is not to merely provide technical prescriptions for policy reform, but to engage in a collaborative effort with the host government and donor agency to identify and analyze the issues at hand, arrive at policy solutions and implement reforms.

The International Studies Program specializes in four broad policy areas:

- Fiscal policy, including tax reforms, public expenditure reviews, tax administration reform
- Fiscal decentralization, including fiscal decentralization reforms, design of intergovernmental transfer systems, urban government finance
- Budgeting and fiscal management, including local government budgeting, performance-based budgeting, capital budgeting, multi-year budgeting
- Economic analysis and revenue forecasting, including micro-simulation, time series forecasting,

For more information about our technical assistance activities and training programs, please visit our website at <http://isp-aysps.gsu.edu> or contact us by email at ispaysps@gsu.edu.

The Feasibility of Site Value Taxation

Riël CD Franzsen
University of South Africa

And

William J McCluskey
University of Ulster, Northern Ireland

Introduction

For purposes of this paper and in light of the theme of this conference, a discourse on the economic theoretical advantages of site value taxation (SVT) was deemed unnecessary. Our approach is to provide a rather pragmatic review of the current status of SVT in developed as well as developing countries utilising it and drawing some conclusions regarding its feasibility which may serve as indicators for countries contemplating property tax reforms.

The terms ‘site value’, ‘land value’, and ‘unimproved land value’ have been used somewhat interchangeably. However – as is indicated in the paper – in respect of each jurisdiction where a tax on land value, in other words a tax excluding the valuation of ‘improvements’, is levied, the relevant legislation will have to be studied to establish what exactly is included or excluded from the actual tax base. In other words, in any comparative study, similar terms or phrases should be treated with circumspection – as they may indeed mean different things.

In some instances, for example, so-called ‘merged improvements’ (such as those pertaining to drainage, filling, excavation, grading or levelling) are included in the tax base, hence the term ‘site value’ as opposed to ‘unimproved value’ which is usually identified with land in its most pristine natural state.

Brief Overview of SVT in Developed Countries

Australia

Australia has been using ‘site value taxation’ (SVT) for a long time. According to Hornby (1999) the first land value tax was introduced in Tasmania in 1857. According to Smith (2005), however, South Australia was first to introduce such a tax in 1885. The discrepancy may be explained by the fact that the respective authors do not make it all that clear whether the taxes referred to are state-wide taxes (levied at state level), or possibly local government taxes (i.e. ‘rates’). A federal land tax was introduced in 1910-11 (*Land Tax Assessment Act, 1910*; Herps, 1988). The combined effect of federal and state land taxes was rather severe, but even at its highest level it was still below 100 per cent of the economic rental value (Smith, 2004). The federal land tax was abolished in 1952 (Herps, 1988) however, currently each state levies a land tax based on the unimproved land value of property.

At present all States apart from the Northern Territory apply land tax as a state tax all based on the unimproved value of the land. In Victoria, the *Land Tax Act 1958* imposes an annual tax on the total unimproved value of all land owned in Victoria. In South Australia the *Land Tax Act 1936* contains provisions relating to the collection and administration of land tax. Land tax in Tasmania is payable by the owner of land and administered by the State Revenue Office under the *Land Tax Act 2000*. For Queensland the land tax is an annual tax levied on the aggregate unimproved value of freehold land that a person owns. The Office of State Revenue (OSR) collects land tax in under the provisions of the *Land Tax Act 1915*. In Western Australia the land tax is an annual tax based on the ownership and usage of land. The tax is based on the unimproved value of the land as detailed in the *Land Tax Act 2002* and *Land Tax Assessment Act 2002*. It is levied at progressive rates (ranging between 0.15 per cent - 2.5 per cent). The legislative basis on which the Australian Capital Territory imposes its land tax is found in the *Land Tax Act 2004*. For New South Wales it is the *Land Tax Management Act 1956*.

Apart from land taxes, all states and territories levy “rates” at local government level.

Western Australia

In 1980 the McCusker Committee of Inquiry was established to examine problems related to rating and land 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.¹ Prior to the McCusker Committee the Keall Report recommended that assessed value should be a certain percentage of capital value. However, these recommendations have not been implemented (Hornby, 1999).

Presently *The Local Government Act, 1995* (read with the Valuation of Land Act, 1978) provides that the basis for any local government rate on land is to be –

¹ This seems somewhat strange, as in respect of unimproved property capital value and site value will generally be the same.

- where the land is used predominantly for rural purposes, the unimproved value of land; and
- where predominantly used for non-rural purposes, the gross rental value of the land.

The 30 local governments within the Perth Metropolitan Region, town councils elsewhere in the State, as well as shires presently utilise gross rental values as tax base for rating urban properties. However shires use unimproved values of land for rating purposes in all rural areas.

Unimproved value is a vacant land value which is applied to every property (lot) in Western Australia. Unimproved values are used by the State Revenue Department as a basis for the state land tax and by some local governments, namely the shires, for all rural properties. Unimproved values are assessed annually throughout the State in respect of all rateable properties (approximately 740,000) and gross rental values are determined every three years in the Perth Metropolitan Area and on a four- to six-yearly cycle in respect of towns in rural areas. These valuations are undertaken by the Valuer General's office in terms of the *Valuation of Land Act, 1978*. Mass appraisal techniques are used for both bases, i.e. for all valuations for rating purposes. Regular revaluations imply that significant shifts in tax incidence are effectively countered. This conclusion is underscored by the few queries, objections and appeals received by the Valuer General's Office, which also suggests that the quality of assessment is generally high.

As pure unimproved value became unworkable for town site land, due to the nature of certain improvements (defined as 'merged improvements'), the tax base was changed to 'site value'. The site value of land is defined (in the *Valuation of Land Act, 1978*) as –

'the capital amount that an estate of fee simple in the land might reasonable be expected to realize upon sale assuming that any improvements to the land, other than merged improvements, had not been made...?'

In Western Australia there is a growing trend to opt for 'differential rating'. For example, Perth City Council introduced differential rating in 1997/98 and currently utilises seven land use categories. The majority of local governments now utilise differential rating to spread the rates burden more equally amongst different property use categories. Differentiation is accompanied by vigorous public awareness campaigns (Franzsen, 2005b).

Status of SVT in Western Australia

- Although used by local governments only in rural areas, unimproved value taxation is used throughout urban and rural areas in Western Australia for purposes of the state land tax. The systems seem to function very well, primarily as a result of a long history of land taxation in the state as well as regular, uniform state-wide valuations.
- Site valuations (in urban areas) and unimproved land values (in rural areas) are undertaken annually, keeping the base buoyant and, coupled with differential rates, ensuring that shifts in incidence that would otherwise be significant, are

‘smoothed out’. This reduces political pressures and taxpayer resentment. Furthermore, annual revaluations undertaken in a uniform manner by a single service provider also result in fewer objections and appeals.

- The generally high nominal rates apply to both gross rental values and site values and do not seem to present noticeable political opposition. The Valuer General’s Office and individual local governments respectively explain their valuation and rates-related conduct to their respective constituencies in annual reports. In short: The system is transparent and well publicised.

Queensland

Since the turn of the century local government rates in Queensland have been levied on the unimproved capital value of land – 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 property owner (McCluskey, 2005c).

For valuers the difficulties and anomalies associated with this definition of land, however, are increasing with the passage of time and continuing urban development. For example, improvements such as levelling, clearing and filling carried out many years previously are becoming virtually impossible to identify. Other 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 BCC Chalk Report (1989), the Smith Review (1990) and the Evans Report (1996) all supported the adoption of ‘site value’.

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 (McCluskey, 2005c).

Status of SVT in Queensland

- Despite various research reports suggesting that Queensland adopt site value the current basis of the property tax remains as ‘unimproved’ value.

- Issues with the current system tend to focus on the rapidly developing areas on the coast where land values are extremely volatile.

New South Wales

Valuations undertaken by Lands on behalf of the Valuer General, for rating and taxing purposes are made under the Valuation of Land Act 1916. These values refer to land value only and do not generally reflect the full sale price that could be obtained for the property.

Most land in New South Wales is valued using the 'component method' of valuation, where properties are placed together and valued in groups called components. The properties in each component are similar or are likely to change in value in a similar way. Within each component, at least one representative property is valued individually each year to measure how much the value has changed from the previous year. The change in value is then applied to all properties within the component to determine their new value.

The most direct evidence for assessing land value is to compare the property being valued with the sale price of comparable vacant land sold around the time of the valuation date. Where there are limited sales of comparable vacant land, the valuer will look at sales of improved properties and make allowances for the added value of the building and structure. This would be appropriate where houses are either being demolished or extensively renovated.

A recent study, undertaken on behalf of the NSW Parliament, suggests that the land tax in that state is under some pressure (Smith, 2005). As is the case on the Queensland coast, there are rapid increases in value and therefore concomitantly in land-related taxation (Smith, 2005). This phenomenon is not unique to SVT, but probably more noticeable because of the higher nominal tax rates a land-only tax base necessitates. The paucity of undeveloped sites may also have the result that those remaining sites command very high, somewhat unrealistic comparable values. The exclusion of primary residences from the land tax reduces at least some of the political flack.

New Zealand

Currently in New Zealand local authorities have the choice of three alternative systems on which the real property tax or rates may be levied. These systems are (i) the total value of land, buildings and other improvements (capital improved value); (ii) land value only (previously known as unimproved value); and (iii) the annual rental value. However, local authorities have not always enjoyed a choice between these three rating systems.

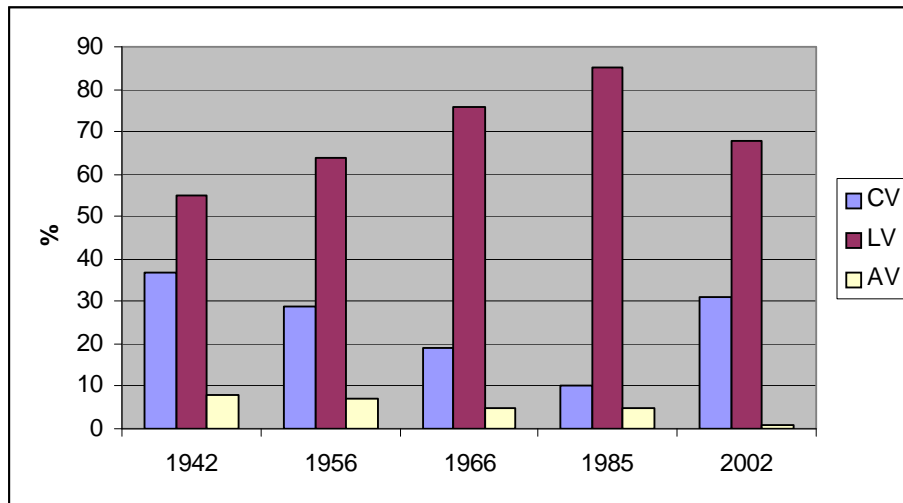
Provision for the rating and taxation of land and property was made from the earliest days of organised European settlement in New Zealand. The Property Rate Ordinance of 1844 introduced a tax both on property and on income. The Municipal Corporation Ordinance also of 1844 provided for the rating in boroughs.

During the first decade of British colonization in the 1840s, annual value was the most extensively used basis for rating, which was in effect an adoption of the 'English

system' of rates. By the mid-1850s all the main rating systems employed today had been adopted in one form or another by various local authorities under the then provincial system of regional government (McCluskey, 2005b).

After 1896, with the advent of three recognised systems of rating available to local authorities, there was a steady move away from annual value and capital value rating to unimproved value rating. The proportion of local authorities using unimproved values increased from 64.2% in 1956 to 76.1% in 1966, while the proportion rating on capital and annual value, respectively, had declined from 29.5% to 19.3% and 6.3% to 4.6%. Clearly over the last fifty years land value based rating has been the dominant system. However, since 1985 there has been a noticeable swing back towards the use of capital improved value. This is more evident within the larger urban areas. Figure 1 illustrates the movement in the usage of the three main tax bases since 1942.

Figure 1: Systems used by Local Authorities in Percentage Terms



Up until 1976 local authorities could switch from capital values to annual values rating systems without reference to ratepayers, but any change in adopting or abandoning land value required a majority poll of ratepayers. At present local authorities can indeed change the rating system without recourse to a taxpayer poll; however, public consultations would normally take place.

A major conceptual change to rating took place in 1970 when the term 'land value' effectively replaced 'unimproved value' as the basis for rating valuations.

- The Local Government (Rating) Act 2002 replaces the Rating Powers Act 1988 and provides the powers to set, assess and collect rates to fund local government activities. It is intended to update and simplify existing rating powers to meet the needs of modern local authorities.

When one considers central business district areas the question of quantity of sales becomes more acute. For 2001 Table 1 shows the number of vacant and improved land sales in comparison to the total number of assessed properties.

Table 1: Vacant and Improved Land Sales within the CBD: 2001

City	Number of assessments	Vacant land sales	Improved sales
Christchurch	3,778	3	30
Wellington	3,648	0	40
Dunedin	2,239	0	11

Source: McCluskey and Franzsen, 2004.

There is therefore a real lack of open market evidence upon which land values can be accurately and objectively determined for CBD areas.

From the New Zealand perspective there would appear to be data availability problems with specific regard to the assessment of land value for commercial property within urbanised areas. From an assessment perspective the few sales that do occur, both improved and vacant are intensively analysed in order to determine the underlying land value component. This devalued evidence is then extrapolated to develop a pattern of land values within CBD areas.

The problem is significantly less acute with regard to residential property. Within the three urban areas considered there are reasonable numbers of unimproved land sales. However, in each of the cases the number of unimproved land sections sold compared to improved dwellings represented 4 percent (Wellington), 3 percent (Dunedin) and 9 percent (Christchurch) over a twelve-month period. However, given the fairly homogeneous nature of land it is not unrealistic to assume that fewer land sales would be required. Compare this to the heterogeneous nature of improved property and the requirement to have considerable more sales to fully represent the population of property (McCluskey and Franzsen, 2004).

Therefore, from the statistics provided it is clear that the major areas of assessment/valuation concern would be related to the large towns and cities where unimproved transaction evidence is relatively scarce.

Status of SVT in New Zealand

- The use of land value as the basis for local government rates continues to play an important role within the sphere of local finance.
- Predominantly rural local governments would tend to apply land value as opposed to urban areas which utilise capital improved value.
- Shifts in the basis of local rates has recently seen a gradual move away from land value to capital improved value.
- The tradition and experience of valuation departments in producing land value assessments suggests that even with limited transactions land values can be objectively determined.

Brief Overview of SVT in Developing Countries

Africa

Although legislation in various African countries (e.g. Kenya, Namibia, South Africa, Swaziland and Zimbabwe) provide for the option of a tax assessed on land value only, it is only Kenya and South Africa that have extensively used SVT in practice (Franzsen and McCluskey, 2005). And with South Africa in the process of implementing the recently-promulgated *Local Government: Municipal Property Rates Act 6 of 2004* in terms of which land and improvements must be valued and taxed collectively, Kenya will remain the only country on the continent levying a SVT.

Kenya

Property tax (called 'rates') was introduced in Kenya as early as 1900, when the first system was applied in Mombasa on an annual rental value basis (Olima, 2005; Olima and Syagga, 1996). The following year, a similar tax was introduced in Nairobi. By 1923, taxation on the basis of annual values was found wanting as too few properties had been developed. Nairobi, in conformity with the systems then existing in Australia, New Zealand and West Canada (which were influenced by Henry George's ideas of a single land tax system), introduced SVT in 1920. As site values were considered to provide a more appropriate tax base, SVT was introduced throughout Kenya by 1928.

Although legislation in Kenya provides for a number of alternative options regarding tax base, SVT is in practice used almost exclusively. Out of the total of 174 local authorities in Kenya, there are 102 that use some form of property taxation. As Kelly points out, municipalities and towns in Kenya tend to rely on value-based taxation while rural counties tend to use an area-based system or a combination of area and valuation rating. Rural agricultural land (if included in the tax roll) is typically taxed on an area basis while urban land (or built up areas) is typically taxed on an *ad valorem* basis (Kelly, 2004).

Status of SVT in Kenya

- Although still widely used, SVT in Kenya must be viewed as under some threat. Especially amongst members of the valuers' profession there are increasing calls to include improvements in the tax base (Olima, 2005). It is argued that, especially in Nairobi, SVT does not provide a broad enough base to raise the revenue required to improve service levels and infrastructure.
- The political unwillingness to increase nominal rates in respect of aging (in some instances significantly outdated) valuation rolls and to do the required supplementary valuations of new properties, do present significant problems. However, the skills shortages and poor administration should not and cannot necessarily be related to SVT as such.

South Africa

In South Africa property tax (called 'rates on property') has been a source of revenue for urban municipalities in South Africa since 1836. It is an annual tax on owners of

land and until recently charged, assessed and collected in terms of provincial legislation in all nine provinces. Under the former provincial ordinances that regulating rating throughout South Africa, municipalities had a choice among the following three tax bases:

- site rating (ie unimproved land value);
- flat rating (ie capital improved value); or
- composite rating (ie land and improvements, but separately and at different tax rates).

It is interesting to note that, in 1994, when the transition towards the new local government dispensation began in earnest, the use of the three rating system was rather evenly spread, i.e. approximately one third each (Bell and Bowman, 2002). These three rating systems have, however, been abolished by the *Local Government: Municipal Property Rates Act 6 of 2004* when it became law on 2 July 2005. In terms of this Act, these systems will be phased out over a four-year period. All metropolitan and local municipalities must prepare new valuation rolls, in terms of which 'market values' must be determined. As soon as these new valuation rolls become operative, rates will be determined with reference to capital improved values. In short: By 1 July 2009, SVR will no longer exist as a tax base in South Africa.

For valuation purposes, legislation in all four the former provinces of the pre-1994 South Africa (namely the Cape of Good Hope, Natal, Orange Free State and Transvaal), has dictated a 'separation' of values (i.e. the need for 'site' values and the value of improvements to be reflected separately in a valuation roll) as far back as 1903. SVT was, however, only introduced in the Transvaal in 1916 (McCluskey and Franzsen, 2004; Franzsen, 2005a). In each of the former four provinces the sanctioning of separate values pre-dates the allowance for different rating system by a number of years.

Although the acceptance of capital improved value as the only tax base to be used in future seems to be in line with current international trends (McCluskey and Franzsen, 2001), the implementation of this change will of necessity result in significant shifts in tax incidence. This will be most visible in those municipalities where site rating is presently used and, to a lesser extent, in those municipalities where composite rating is used.

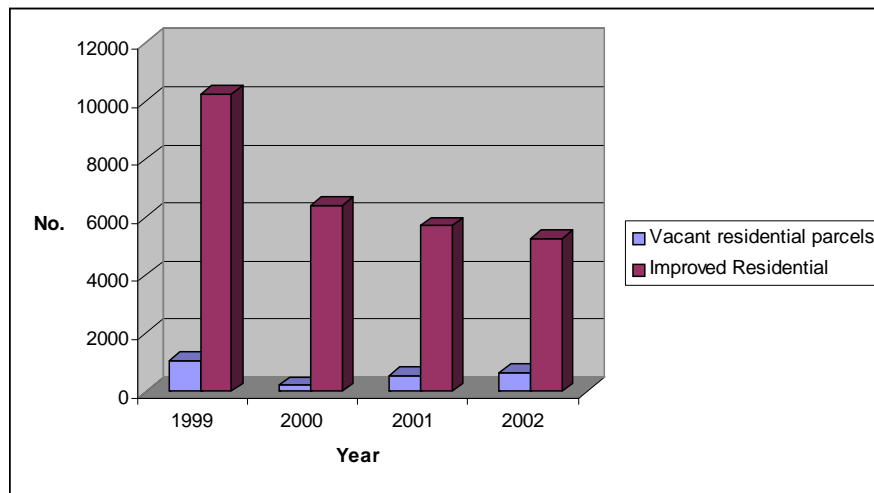
Probably the most-often cited argument in favour of a site-value tax is its assessment advantage (McCluskey and Franzsen, 2001; Bahl, 2002; Bell, 2002; Van Ryneveld and Parker, 2002). Clearly the valuation roll can be prepared and maintained more cheaply and uniformly if improvements are not included in the tax base. However, this very real advantage was, for example, rather perversely not generally available in the context of South Africa as the (former) provincial laws required that irrespective of the tax base utilised in practice, valuation roll had to reflect two (i.e. land and improvements) or three values (i.e. land, improvements and capital value)(McCluskey and Franzsen, 2004). Only in the former Cape of Good Hope Province was the Cape Valuation Ordinance, 1993 amended (Van Ryneveld and Parker, 2002) to make it possible to value only land should a municipal council opt for site rating. It should be mentioned, however, that in the case of municipalities utilising site rating, municipal

valuers (by their own admission) did not spend too much time on the accuracy of the ‘improved value’ and – by implication – the value of ‘improvements’.

Whether site rating provides the best option for rating purposes, especially where there is at least some doubt about the professional capacity, is not clear. The problem is not the extension of valuation rolls to the relatively few rural properties, but how to deal with the substantial numbers of urban properties within a four-yearly cycle.

Generally speaking the assessment of site value is usually straightforward where evidence of demand is present and good sales are available. However, in the highly developed inner cities of South Africa, vacant land sales are indeed posing a problem for municipal valuers. As argued in respect of New South Wales (Smith, 2005), the paucity of undeveloped sites may also have the result that those remaining sites command very high, somewhat unrealistic comparable values. Valuers will sometimes have to rely on sales from adjacent neighbourhoods to provide an indication of land values. Figure 2 illustrates the sales of vacant and improved residential properties over the period 1999-2002 in the City of Tshwane. Whilst there are no fundamental conceptual problems in valuing land for taxation, there can be difficulties in practice – particularly in respect of commercial areas (McCluskey and Franzsen, 2001; Bell, 2002).

Figure 2: Sales of Vacant and Improved Residential Plots in Tshwane Metropolitan Area



Source: Tshwane Valuation Department, Pretoria (2003).

Status of SVT in South Africa

After almost a century SVT in South Africa is in the process of being phased out. The reasons are –

- Political – it is commonly perceived that a major portion of wealth is excluded if improvements are not included in the tax base

- Tax base – a single, uniform tax base has replaced the three systems from which municipalities could choose in the past. This system must be applied on urban and rural properties.
- Valuation – the increasing difficulty of find defendable and credible sales data in highly-developed urban areas

Namibia

Following the historic National Land Conference in 1991, various policies and legislative instruments were introduced in Namibia. One of the land reform instruments mooted at the National Land Conference was a land tax. Since 1997 the government worked consistently on the introduction of a land tax on commercial agricultural land. This tax, which was eventually introduced in 2004, is considered to be one of the cornerstones of Namibia's land reform programme (Republic of Namibia, 2005).

The land tax is levied in terms of section 76 of the *Agricultural (Commercial) Land Reform Act 6 of 1995* (as amended) and the *Land Valuation and Taxation Regulations of 2001*. This narrow-based tax aims to (Republic of Namibia, 2005) –

- 'Encourage the efficient utilization of commercial agricultural land
- Discourage multiple ownership of farms (through the application of a progressive rate of tax)
- Encourage redistribution and diversification of ownership
- Reduce land prices and thus broaden the access to ownership
- Redress the skewed pattern of land ownership
- Relieve poverty through resettlement and decongestion of communal areas
- Raise revenue for the Land Acquisition and Development Fund (to facilitate and accelerate the process of land acquisition, distribution and development).'

The rate is 0.75% of 'unimproved site value' for a first farm, with the rate increasing by 0.25% for every additional farm. Foreigners are taxed at 1.75% for a first farm and 0.25% for every additional farm. In 2005 N\$27.9 million was raised through the land tax (SADOCC, 2006). The revenue is used exclusively for the land reform program.

The valuation process began in 2002. Land is valued (Republic of Namibia, 2005) – 'taking into consideration differences in agro-ecological zones, growing period zones, farm ranking zones, carrying capacity zones, the natural productivity of agricultural land, an including a seven-step sales analysis of the land (which includes a field survey, collation and synthesis of field inspection results, calculation of the gross replacement cost, determination of depreciated replacement costs of improvements to the land, adjustment of sales evidence, determination of unimproved site value, and a determination of unimproved site value as rate per hectare).'

Caribbean and Latin America

Land area-based systems are used in a number of countries in the Caribbean – such as Barbados, St Lucia, St Kitts and Nevis, St Vincent and the Grenadines, and Trinidad and Tobago (Franzsen and McCluskey, 2005; Dos Santos and Bain, 2004). In 2001

Belize's Towns Property Tax Act was amended to allow for a SVT to be used in the capital city of Belmopan (Office of the Prime Minister, 2001).

Jamaica

In 1955, the government of Jamaica sought, through the United Nations, the services of a qualified advisor practised in the unimproved value system of property tax. This yielded the services of Mr J.F.N. Murray from Australia. Murray's report of findings and recommendations (tabled in June 1956) served as the blue-print for the –

- development of the system of land taxation based on unimproved values
- the draft of a Valuation Law that was substantially the Bill that was presented to Parliament.

Murray's comprehensive report dealt with several key aspects including, the incidence of land tax, tax rates, an appreciation of the valuation problems, the valuation of improvements, sales analyses, the collation of sales evidence, revaluation preparation, staff requirements and the legislation necessary to give legal effect to the recommendations (McCluskey, 2005a).

In Jamaica, the Land Valuation Act of 1956 made provision for the implementation of a property tax based on the unimproved and improved value of every parcel of land in the country. Although the Act provided for the determination of two bases of value, in reality only one set of values i.e. unimproved values were undertaken. The legislation was subsequently amended by deleting the improved value of the land as one of the particulars required to set forth in the valuation roll. If, however, at some future time, it is decided to revert to the two bases, the Act provided for the Minister to prescribe by regulation that the improved value of the land is an additional particular to be shown on the valuation roll.

For over 50 years Jamaica has administered the land tax. Whilst not without political, administrative and technical problems (McCluskey, 2005a; Sjoquist, 2004; McCluskey and Lyons, 1999) the land tax remains an important and integral source of revenue for the parish councils (McCluskey, 2005a).

The revaluation cycle in Jamaica whilst prescribed by law as being quinquennial (Land Valuation Act) has yet to achieve this standard. Revaluations were undertaken in 1901, 1911, 1929 and 1937; these latter reassessments could in the purist from not be termed as revaluations but more as attempts to 'update' values. Subsequent revaluations based on unimproved value were effected in 1957, 1974, 1984, 1993 and 2002 (McCluskey, 2005a). The Land Valuation Department clearly has the professional and technical ability to undertake regular revaluations as demonstrated by the completion of the 2002 revaluation. The infrequency of revaluations is therefore not due to the lack of capacity but has rather more to do with political will.

Given the experience of Jamaica in administering the land tax it would appear unlikely that the system will change in the foreseeable future. The often used argument that the tax base under a land tax is too narrow, as it excludes the wealth encompassed in buildings and other improvements has been referred to in a number of reports (Sjoquist, 2004; McCluskey, 2002).

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 Ridsden (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 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.

In Jamaica 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 will require significantly more resources to ensure the tax base is properly 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. However, where there are material resource constraints in terms of trained and experienced personnel, the gain in moving to capital improved might be more illusory 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 revenue sustainability. Presently it is difficult to envisage how Jamaica could move to improved values given the costs involved in capturing the improvements to land.

Sjoquist (2004) makes the point that it would be very difficult for Jamaica to implement a capital value tax without substantial upfront cost and a long lead time. Therefore, his final conclusion is that the land value tax should remain.

Status of SVT in Jamaica

The experience of the land tax in Jamaica from a valuation perspective demonstrates a number of key issues:

- The need for a property cadastre which contains accurate information in respect of each parcel including topographical and planimetric maps and aerial photography.
- A property titling system and land registration system (e.g. Torrens System) which provides accurate and certain information on ownership.
- Appropriate qualified staff to undertake the inspection, referencing and valuation of the properties.

- Integration of new technologies to assist in the management, administration and assessment functions such as CAMA, GIS and relational databases.
- Political support to ensure, in particular, that the revaluation and assessment functions are not compromised.

South Pacific Region

A number of countries in the south Pacific region, especially those countries under the influence sphere of Australia or New Zealand, also utilise SVT – for example Papua New Guinea, Fiji, the Solomon Islands and Vanuatu (Franzsen and McCluskey, 2005).

Fiji

In Fiji the tax base is ‘unimproved capital value’ (UCV). UCV is based on the value of land in its original state, disregarding the nature or value of buildings and other structural improvements on the land. A town-planning scheme is a prerequisite for the valuation process. Reassessment of the UCV is undertaken every six years and is usually undertaken by the Valuation Section of the Lands Department.

An issue of concern in Fiji relates to how well ratepayers understand the basis and principles upon which the tax is levied. The government has never sought ratepayer’s views on the UCV system. Experience with ratepayers would suggest that they do not understand the basis and principles on which the tax is levied (Hassan, 2005).

In Fiji it has been observed that the UCV basis for rating provides some incentive for urban development. This is especially noticeable in those local council areas in Fiji where development is still in progress and old structures require upgrading. It encourages (or more likely does not discourage) landowners to remove obsolete and dilapidated structures from their land. It also provides incentives to undertake redevelopment, refurbishment and upgrading of existing structures. As a result of redevelopment, values of the properties in the neighbourhood will tend to rise, benefiting the owner and the community at large and expanding the non-property tax base as well as the tax base for rates (Hassan, 2005).

The UCV system is seen as being cheap to administer and mass appraisal techniques can be used in this relatively homogeneous environment. In Fiji, only government valuers who are familiar with the UCV system undertake rating valuation work, ensuring some uniformity (Narayan, 2002). The exercise is to determine the benchmark values and interpolate them to determine a land value for each parcel within a rating area. The system is seen as more straightforward compared to the valuation of improvements as required under an improved capital value system.

A major disadvantage of the UCV system is that of obtaining accurate transaction data for vacant plots, particularly in highly-developed areas. In the absence of unimproved sales, the sites may be valued by reference to a residual approach or by isolating land value from sales of both land and buildings. The two cities in Fiji, namely Suva and Lautoka, are almost completely developed within the metropolitan

area and as a consequence it is very difficult to obtain vacant sales information (Hassan, 2005).

Another disadvantage associated with the UCV method is that it provides a limited tax base and therefore produces sufficient revenue only at high nominal rates (Hassan, 2005).

Status of SVT in Fiji

- Although there are some calls for extending rates to improvements, SVT (i.e. UCV) is not presently under serious threat. However, there is growing concern among some councils that the UCV system does not result in an equitable sharing of the financial burden, as sites with significant improvements and with land uses benefiting from various types of municipal services, are taxed at the same rate as vacant plots. There is a consensus that instead of switching entirely to a new system, possibly based on the improved capital value or on assessed annual values, councils should choose between the different valuation systems, possibly one which would value properties in accordance with the level of use of the municipal services (Hassan, 2005).
- There are, however, negative taxpayer perceptions. An important issue is that under the present UCV system properties situated in better locations pay higher rates in comparison to those located on lower valued sections, notwithstanding that both enjoy the same services (Hassan, 2005). This is not unique to a SVT system.
- Furthermore, an owner of a vacant lot pays the same rates as the owner of the identical adjacent plot, even though the latter may be improved. Excluding the value of improvements results in a significant proportion of the value of property being effectively exempted from the property tax. Two similar lots may have the same UCV but in terms of the development, they may be producing significantly different levels of income/profit for the property owners. It can therefore be argued that the UCV system is insensitive to vertical and horizontal equities as well as to the taxpayer's ability to pay (Hassan, 2005).
- If not addressed appropriately, the lack of taxpayer understanding of the current system, and government's lack of communicating with taxpayers, will likely over time put added pressure on the current system.

Issues Common to Land and Property Taxes in Developing and Transition Countries

In 1998 Bahl posed the following questions in the context of land value taxes or property taxes in developing and transition countries:

- How well do they work?
- Can the land value base be maintained in the face of the significant pressures to tax improvements?
- Are there prospects for the property tax to grow to be an important source of financing local public services?

In the context of the theme of this workshop, namely “making the property tax work in developing and transition countries”, these questions need to be revisited. Given the significant number of developing and transition countries where land and property tax reforms are high on the agenda, answers to these questions are as pertinent today as they were almost a decade ago.

Although not one of these two countries utilizes SVT, these two examples from the African continent should illustrate this point:

Uganda

In 2005 Uganda promulgated the *Rating Act, 2005* which replaced the *Local Authority (Rating) Decree, 1979*. Despite the golden opportunities presented by a chance to overhaul the dysfunctional property tax system, which was still largely based on the British rating system retained from colonial times, very few material amendments to the system were in reality effected. The annual rental value system was retained as uniform tax base, despite the fact that –

- there are fewer than 30 registered valuers in all of Uganda
- no training of valuers is presently provided anywhere in the country
- many existing valuation rolls are older than 40 years
- at least for some of the new towns valuation rolls have never been prepared, despite repeated requests to the office of the Government Valuer
- limited rental market evidence exists outside the larger cities.

Sierra Leone

Sierra Leone has recently promulgated the *Local Government Act of 2004*. This Act provides for a property tax based on annual rental values and was passed despite the absence of a valuation profession in the country. Not surprisingly (but if the law has to be taken seriously, unlawfully), Freetown is still levying and collecting rates (i.e. property tax) in terms of an area-based system.

In the absence of a valuation profession in many developing and transition countries, the question should be asked whether an area-based approach, which provides for some locational factor or factors does not provide a more pragmatic tax base (Brzeski, 2005; Franzsen and McCluskey, 2005)?

Bahl’s question about the “pressures to tax improvements” is thus indeed relevant, but presupposes another question: If it is agreed that these pressures indeed exist, who is responsible for these pressures to retain or implement an *ad valorem* property tax system on improved values, albeit rental or capital values?

- Is it wealthy property owners?
- Is it national and/or local politicians?
- Is it the small, but often well organised valuers’ profession?
- Is it international consultants advising governments in transition on behalf of the World Bank, aid agencies and/or donor community?

There seems to be a very real incentive for at least the first three categories to retain a dysfunctional system (Strasma, 1990) where property valuations are costly and valuation rolls generally outdated, making it difficult for local officials to enforce the tax. As Strasma et al (1990) point out – albeit more specifically in the context of agricultural land taxation – “large land owners have a political interest in opposing land revenue systems and, in practice, they do”. It is probably also true that there are instances where consultants have been marketing and selling the systems with which they are most familiar.

Our brief is, however, to focus on the feasibility of site value as a tax base for developing and transition countries.

LVT/SVT presupposes a system in terms of which land actually has “value”. In a number of African countries (e.g. Ghana, Mozambique, Sierra Leone and Tanzania) land is not presently taxed, because it has been nationalised or is deemed to belong to the people. These countries only tax buildings (Bird and Slack, 2004; Franzsen and McCluskey, 2005). However, with the promulgation of its new *Land Act, 1999*, the government in Tanzania seems to acknowledge that land indeed has value and it seems as if government and the valuation profession are indeed beginning to realise the potential for a property tax which actually taxes improvements *and* land (Geho, 2006).

Current Issues

Policy Issues

Keeping in mind the often-quoted maxim that ‘tax administration is tax policy’, the availability of the minimum required skills and capacity in the short to medium term should dictate whether to implement a SVT (or any other value-based system).

Should the land value tax or site value tax be introduced to attain non-fiscal goals? This is what Namibia did in 2004 (Republic of Namibia, 2005). This issue is also presently (post the July 2005 Land Summit) resurfacing in South Africa – despite the new local government and property tax dispensation in terms of which rates on property are already in an advanced stage of being extended to rural properties. We are in complete agreement with Bird and Slack (2006) where they state the following in this regard –

‘The effort devoted to designing land taxes intended primarily to achieve non-fiscal purposes may at times have detracted from the more important task of implementing an effective and efficient revenue source for local government (Bird 1974). Rural land reform, the control of urban land speculation, reaping land value increments for public purposes – all these are worthy objectives. But attempts to achieve them indirectly through the clever design of fiscal instruments may at times be counterproductive and have almost always proved not to be worth the effort.’

At low tax rates and in a generally weak administrative environment the non-revenue advantages associated with a SVT are, in practice, seldom more than perceived advantages. In developing countries SVT is generally levied at rates that are too low

to really have a significant non-revenue impact. At most the 'advantage gained' is the fact that the distortionary disadvantages associated with the taxing improvements cannot manifest.

If revenue demands are negligible, the selection of tax base is almost inconsequential. Furthermore, if taxpayers are content with the municipal services they receive, they are likely to tolerate a crude system – as evidenced by the 'arona' in Israel and the council tax in the United Kingdom. They may also tolerate very high nominal rates, if values are low, the actual amount thus payable is (still) affordable and there are acceptable levels of municipal services. How else can a SVT with tax rates of 22% and even 54% be explained in some small rural towns in South Africa?

Duality within the same geographic area creates significant inequity and resentment, especially if many properties are not covered by any one of the two systems – e.g. Dar es Salaam, Tanzania. However, duality, as exercised in Western Australia, seems to work well. The system covers all properties, and rural ratepayers receive at least some local services.

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 to perform this crucial task.

Valuation Issues

There are several countries that have traditionally or historically adopted site value or unimproved value as the basis of the property tax. Apart from Australia, New Zealand and South Africa, these include Kenya, Jamaica and Fiji. All of these countries are currently facing the challenge of the lack of evidence is more acute in the highly developed urban areas and main cities. This is also reported to be a problem in Honiara, the capital of the Solomon Islands (Franzsen and McCluskey, 20005). However, outside of these highly-developed inner city areas, there would still appear to be sufficient sales to support a land value system.

The Valuation Standard

As Gaffney (1975) remarked, the basic premise of site value taxation is that the land should be taxed and improvements should be untaxed. Within the valuation context this requires, at its most basic level, that the land should be valued ignoring any improvements that may have been made to the land. The question of what constitutes 'improvements' has to a large extent been resolved in those countries and jurisdictions that apply land value taxation by legislating what are considered to be improvements. This was seen as an important step since the original concept of unimproved land, was largely based on the physical state of the land as it existed prior to any human development. The 'virgin' or 'prairie' state of the land posed many problems in determining what the actual state of the land was many decades or even hundreds of years ago. In the early 20th century Australia, New Zealand and South Africa adopted this original standard which tended to work reasonably well given the largely

undeveloped state of those countries. The unimproved value was relatively easily established as there were sufficient undeveloped land sales upon which to determine assessed values.

As those countries have developed the 'original' state of land has changed due to such activities as draining, levelling, clearing and reclaiming. Thus the original value standard is inappropriate as it is clearly difficult or impossible for valuers/assessors to discover the historic state of land/parcels at some distant point in the past. Many authors over the years have contributed to the debate over what should constitute 'improvements' to the land and be ignored in the estimation of land value (Oldman and Teachout, 1976; Back, 1970; Harriss, 1970; Lynn, 1970; Woolf, 1986; Horsley, 1986; Blackwell, 1994). Difficulties in applying unimproved value led many countries to revise the definition². As an example, marsh land and adjacent foreshore land reclaimed from the sea, but within the proximity of a developing commercial harbour would become valuable commercial property. However, since this land had previously been either valueless marsh or actually under water, its value in its original state would be nil and it would thus escape land taxation.

Basically, the revised statutory basis of unimproved value became known as site or land value. In essence, improvements or site works or so called 'invisible improvements' are removed from the definition of improvements and would therefore be reflected in the value of the land. In essence, after a period of time (usually 10 to 15 years), these improvements are considered to have merged with the land. The lack of sales evidence ultimately forced the demise of the unimproved value concept for property tax purposes (Hargreaves, 1991). Victoria in Australia adopted the revised site value in 1958;³ South Australia, 1971⁴ and New Zealand in 1970⁵. Indeed, most of the states in Australia (with the exception of Queensland (Evans, 1996)), New Zealand, South Africa have adopted the concept of 'land value' or 'site value' (McCluskey and Franzsen, 2004). Jamaica in reforming their property tax adopted the land value concept in 1957⁶ (McCluskey, 2005a) and Fiji in 1972⁷ (Hassan, 2005). Kenya, however, similar to Queensland would appear to still operate the unimproved value basis as provided under the Valuation for Rating Act 1984 (Olima, 2005).

In terms of the current land valuation methodology site value can be broadly defined as the value of the unimproved land used in its most productive potential use, irrespective of its current use. It has also been defined as the market value of the land assumed to be vacant (or unimproved) and capable of being developed in accordance with its zoning or its existing use (whichever is greater). Site value differs from unimproved value because, while it does not take into account capital improvements to the land, it does take into account land improvements, in other words those

² Since the beginning of the 20th 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). There are, however, difficulties and anomalies associated with this definition of land. For example, improvements such as levelling, clearing and filling carried out many years previously become virtually impossible to identify. The Committee therefore prefers the concept of 'site value'. See the Chalk Report, 1989.

³ Land Tax Act 1958

⁴ Valuation of Land Act 1971.

⁵ Valuation of Land and Rating Acts Amendment 1970.

⁶ The Land Valuation Act 1957.

⁷ Local Government Act 1972.

improvements that change the structure of the land itself. Site value is essentially the amount of money that an unmortgaged plot of vacant freehold land might be reasonably expected to realise upon sale.

Sales Availability/Evidence

An *ad valorem* property tax is as the name suggests is based on the 'value' of the taxable property. Valuation is a process of estimating the market value of the property as of a given date. The estimation process is largely, although not exclusively, based on comparable transaction evidence. The sales evidence is usually analysed, weighted and to some extent subjectively manipulated in an attempt to derive as far as possible an objective assessment of all the subject properties. Generally speaking the assessment of site value often appears to be straightforward, and indeed in many cases it is. Where evidence of demand is present and good sales evidence is available, the task of determining the assessed value would create few problems. In an ideal world having sales information for all property types close to the valuation date would be extremely desirable. However, reality is quite different. Often assessors have to contend with few sales with many not close to the valuation date. From a valuation perspective one of the challenges with land value systems relates to the dearth of sales evidence. This is an aspect that many of the jurisdictions have been grappling with for many years, particularly in high density urban areas.

The best evidence of market value is to be found in the sales of comparable land, and it has been well established that land value may be assessed by any of the following processes with the degree of reliability decreasing somewhat.

- Based on the sale of the subject land in an unimproved condition at or about the valuation date;
- Comparison with sales of comparable unimproved land at or about the valuation date;
- By comparison with analysed sales of comparable improved land at or about the valuation date;
- By a calculation of the hypothetical development of the subject land for its highest and best use, using data derived from sales of other land, to derive the land value as a residual figure.

Sales of vacant inner city sites tend to be relatively rare. In view of this, sales of improved sites can be analysed to estimate that portion of the total value that would accrue to the land component (Fibbens, 1995; Blackwell, 1994). This secondary evidence whilst useful is fraught with difficulty as there is more reliance on the subjective assumptions and adjustments being made by the assessor. Extrapolation of meagre sales evidence over a jurisdiction can create problems with uniformity of assessed values and interesting challenges by taxpayers to those values.

In July 1998 the NSW Legislative Council General Purpose Standing Committee No 1 inquired into changes in land tax in the State. The Committee received many submissions indicating dissatisfaction with the land valuations produced by the Valuer-General. Given these complaints, the Committee reviewed the land valuation process. It noted that in recent times the difficulty in valuing the site value of land seems to be the lack of land without improvements in existence. Without comparable

sales of vacant land the valuation process becomes more subjective and less defensible. The Committee also noted that vacant land is rare and desirable, lifting the price upwards. It is argued that if all land being valued in that area was vacant, lower valuations would result (Smith, 2005).

Notwithstanding the problems of few sales particularly within urban areas it is important to recognise that land values historically and indeed currently are provided on a regular basis for all of the major cities in Australia, New Zealand and, until recently, South Africa. Also, in many North American jurisdictions it is normal practice for assessment departments to provide an assessment of land value for each property. Within these jurisdictions there appears to be little difficulty in providing the land assessments.

Data Issues

One of the main perceived advantages of a land value system relates to the fact that normally, with a few exceptions, the physical characteristics of land remain constant. This constancy creates an administrative advantage which improved value systems would not be able to match. Improvements to land vary in type and degree, and their value varies with time due to deterioration, obsolescence and depreciation. Managing changes in improvements to property is a significant logistical problem for assessing jurisdictions. The collection, verification and valuing of improvements is an area which has greatly improved with aerial photography, satellite imagery and statistical modelling. All of these come at a cost in terms of the technology required and the skills of the human resource element.

In contrast, changes in land parcels tend to be more manageable – as these generally relate to the recording and surveying sub-divisions, amalgamations and changes of ownerships. For example, if we consider a jurisdiction of 400,000 parcels with the assessing department collection date on fourteen attributes such as owner, address, location, property type/use, area, depth, soil type, soil quality, slope, services, access, frontage, sale price and sale date. This would give a data base that would contain 6 million separate pieces of information, the majority of which would remain constant over time and not require extensive reverification. When we consider an improved value system in addition to the attribute date on the land there would need to be sufficient attributes collected to adequately reflect the varying types of construction. There could be as many as 40-100 additional attributes that jurisdictions may collect. This could mean that for 40 attributes there will be a total of 16 million items of data and for 100 attributes, 40 million – both representing a major data collection and administrative hurdle.

Reflecting on this aspect it would seem that the logistical administration of a land value system is more manageable in terms of the quantity of data required. Where resources are limited as is the case in many developing and transitional countries land value is a more than feasible option. For example, the government of Jamaica have often considered the possibility of replacing the current land value system with an improved capital value a basis (Murray, 1956; Risdén, 1977; Holland and Follain, 1990; Sjoquist, 2005). Outside of the obvious political and economic considerations of such a policy shift are the major administrative hurdles involved in gathering all the prerequisite improved attribute data.

Homogeneous Land and Heterogeneous Improvements

An important point between land value systems and improved value systems lies in the fact that land tends to be more homogeneous than land that has been improved with structures. This homogeneity of land parcels creates a valuation environment that is much less complex than for improved properties. The implication of this is that considerable less sales evidence is required to provide for all the assessed values. The heterogeneity of improved parcels creates issues of representativeness of available sales data. For some types of property there may be ample sales but for others, extremely few.

Resources

Developing countries often have limited resources available for assessment departments. The implication of this is that the assessment function needs to be administratively simple and as streamlined as possible. An improved value basis is, from a valuation perspective, the most complex and resource intensive in terms of skills necessary and the numbers of staff involved. A land value approach on the other hand tends to be less resource intensive, the valuation modelling is less involved and the number of staff required would be less (Hornby, 1999).

Tax Rates

An advantage that a capital value tax base has, in comparison to a land-only base, is that it allows for lower nominal tax rates (Bahl, 1998; Bahl, 2002; Hassan, 2005). This makes it politically more acceptable.

Taxpayer Perceptions

Bahl (2002) points out that there

‘is another perceived advantage of a capital value tax (probably wrongly held) that a tax on land and structures will fall more heavily on businesses, landlords, and wealthy residential homeowners, than will a land value tax, i.e., it will be more progressive. This perception could resonate well with the large population of South African poor. However, contrary to intuition, taxing land and improvements may be less progressive than a land-only tax. For one thing, landowners are heavily concentrated in the upper income brackets. Another issue is that a tax the tax on improvements could drive investment away from real estate, reducing the supply of structures and forcing up rents. Vertical equity may be an argument in [favour] of the land value base.’

It must also be kept in mind that a tax on business properties, especially if it is income tax deductible, can more readily be shifted onto consumers (Bahl, 2002) – including the poor who supposedly benefit from taxing these properties more heavily.

The question must also be asked: Are taxpayers specifically and the public generally indeed attracted by arguments of economic efficiency?

The Feasibility of SVT

Is SVT (still) a feasible option?

Developed Countries

Australia and New Zealand are presently the only developed countries where SVT is still extensively utilised as primary source of own revenue at local government level. State land taxes in Australia are also still levied with reference to ‘unimproved land values’ (Smith, 2005).

In New South Wales, Australia where land values have been increasing rapidly and consistently in recent years, especially in Sydney and along the coast, the level of public interest in land valuations have been increasing too, because of their impact on the state land tax as well as municipal rates. This enhanced interest has led to various government and parliamentary enquiries into land taxation (Smith, 2005). As indicated in respect of Queensland and Western Australia, the situation is similar in most if not all of the other states.

Table 2 highlights the changes in the basis of local government rating since 1977. Victoria and South Australia have largely moved away from land value and adopted capital improved systems. Tasmanian local government tends to adopt annual value as its basis whilst New South Wales, Queensland and Northern Territory continue to utilise land value or unimproved value. Western Australia utilises a dual system – with unimproved values used in rural areas only.

Table 2: The Changing Status of Rating in Australia

State or Territory	Basis of Rating in 1977	Predominant Current Basis
Australian Capital Territory	Unimproved Land Value	Unimproved Land Value
New South Wales	Site Value	Site Value
Northern Territory	Unimproved Value	Land Value
Queensland	Unimproved Value	Unimproved Value
South Australia	Land Value and Annual Value	Capital Improved Value
Tasmania	Annual Value and Unimproved Value	Annual Value
Victoria	Site Value and Net Annual Value	Capital Improved Value
Western Australia	Unimproved Value and Gross Rental Value	Unimproved Value and Gross Rental Value

Developing Countries

As Kelly (2004) indicates –

‘an evaluation of the legal basis for the property rates showed that there are virtually no legal constraints to improved property rates collections. The primary problem is weak administration and the lack of political will. The law itself provides flexibility in tax base definitions, tax rate structures, valuation techniques, assessment, billing, collection and enforcement.’

The argument regarding the lack of evidence of sales in inner city suburbs generally cannot be applied to less developed urban and especially in rural areas. However, the suitability of SVT in rural areas in the South African was questioned by members of the valuers' profession (McCluskey and Franzsen, 2004). It was found that as there are generally few improvements in rural areas, the *inclusion* of improvements in these areas do not pose a major problem to valuers.

Self Assessment

There seems to be a growing trend to use self-assessment as a way to address valuation capacity problems, e.g. Hungary, Philippines, Thailand (Bird and Slack, 2006), as well as India (Brzeski, 2005; Franzsen and McCluskey, 2005). Despite its appeal in the context of limited administrative capacity, self-assessment seems more appropriate in the context of area-based and market value based systems.

It does not seem appropriate to expect property owners of developed properties in urban areas, to provide credible land values for their properties.

Conclusions

In Kenya an area-based system (in principle at least) is used in rural areas and SVT in urban areas. In Western Australia, SVT is used only in rural areas and a gross rental value system is used in urban areas, whereas in Jamaica and Queensland SVT is used throughout the country and state, respectively. As Bird and Slack (2006) correctly state, there simply is no 'one size fits all' in the context of land and property taxation.

Does the SVT perform better in urban or rural areas? Jamaica and Fiji seem to indicate that it can perform well in both. The land value system seems to be accepted and administratively is relatively efficient given the level of resources available in those countries. Australia uses it extensively for urban and rural properties, although indications are that especially in urban areas pressures are mounting in favour of taxing land and improvements. A simple cost-benefit analysis may suggest that in sparsely-populated rural areas a SVT will outperform a system which requires the costly inclusion of up-to-date values of all improvements.

In some developing countries, especially in Africa, where the concept of 'land value' is foreign, and/or where properly functioning property markets are absent, an area-based tax (e.g. Guinea and Cameroon) or a tax on buildings only (e.g. Tanzania and Mozambique) seem to be a more appropriate system, rather than a dysfunctional property tax on the value of land and improvements (e.g. Sierra Leone and Uganda).

Where property values can be determined and at least some market evidence is available and credible, a SVT system may make sense. However, the more sophisticated the property market becomes and the more developed urban areas become, the more difficult it becomes to provide credible data for purposes of a SVT system (McCluskey and Franzsen, 2004).

New Zealand provides an interesting case study as local governments there (still) have the choice of three tax bases. Since the mid-1980s there has been a significant swing

away from land taxes to capital improved values. For example, the pattern of local government property taxation in New Zealand has been undergoing a significant process of evolution, particularly, over the last 30-40 years. Local authority reliance on land value has been challenged by virtue of the fact that capital value rating is becoming more widespread. As local authorities are given a choice as to which rating system to use they are clearly opting for capital value. Valuation factors may be relevant in that as areas are developed there is less and less sales evidence of undeveloped land. Therefore, valuers must extrapolate sales data over a much wider geographic areas to maximise the use of limited sales evidence (McCluskey and Franzsen, 2004).

As countries develop (for example, Australia, New Zealand and South Africa) there appears to be a pattern of adopting the capital improved value basis. An argument in support of this tends to centre around the huge amounts of wealth tied up in real estate improvements. As cities develop and expand the case for capital improved systems strengthens.

In reality, historic patterns as well as social and political realities are further important factors that a specific municipality (if more than one option presents itself) or a government will consider in deciding on the most appropriate system. As indicated by Bell (2002) it is usually a weighing up of financial and political considerations against economic and administrative considerations. Tradition, or rather more accurately, familiarity with a specific system, is also an important factor (McCluskey and Franzsen, 2004).

The recent history of property tax reforms in South Africa and the introduction of the agricultural land tax in Namibia again emphasised the importance of working closely with the valuers' profession where a value-based tax is implemented or reformed in any significant manner. It is, after all, this profession that will ultimately be responsible for the preparation and maintenance of credible valuation rolls (McCluskey and Franzsen, 2004; Republic of Namibia, 2005).

Although the system eventually enacted needs to be sustainable (i.e. the necessary capacity and professional skills must exist to implement and sustain it), it also has to be politically acceptable. Again some lessons could be learned from how the introduction of the land tax in Namibia was managed (Republic of Namibia, 2005).

Given that conservative and/or outdated values and low rates are almost universal issues in developing countries, the question remains: With the growing importance of property tax in the context of fiscal decentralisation and local government autonomy, can a SVT generate the revenue required by municipalities in developing countries; oftentimes given the unpredictability and uncertainty of central government grants? A poorly administered capital improved value tax system is likely to lose its credibility and legitimacy quicker than would be the case for a SVT – as SVT is, by nature, somewhat artificial.

As Estonia seems to indicate, SVT may indeed provide a first, evolutionary step in migrating from no tax or an area-based system to a comprehensive capital improved value system – for at least some countries where a property market is merely emerging and where sufficient resources are available to manage the implementation

as well as the transition to comprehensive market values. This may be the case for other countries in central and eastern Europe presently using an area-based system of property taxation. It seems as if SVT could indeed provide one possible alternative transitional tax base as an initial step towards a capital improved value system.

References

- Bahl, R.W. (1998), 'Land vs Property Taxes in Developing and Transition Countries' in Netzer, D. (ed.) *Land Value Taxation: Can it and Will it Work Today?*, Lincoln Institute of Land Policy, Cambridge, MA, United States, pp. 141-171.
- Bahl, R.W. (2002), 'Fiscal Decentralization, Revenue Assignment, and the Case for the Property Tax in South Africa', in Bell, M.E. and Bowman, J.H. (eds.) *Property Taxes in South Africa: Challenges in the Post-Apartheid Era*, Lincoln Institute of Land Policy, Cambridge, MA, United States, pp. 21-44.
- Bell, M.E. (2002), 'Property Tax Structure and Practice' in Bell, M.E. and Bowman, J.H. (eds.) *Property Taxes in South Africa: Challenges in the Post-Apartheid Era*, Lincoln Institute of Land Policy, Cambridge, MA, United States, pp. 59-75.
- Bell, M.E. and Bowman, J.H. (eds.) (2002), *Property Taxes in South Africa: Challenges in the Post-Apartheid Era* Lincoln Institute of Land Policy: Cambridge, Massachusetts.
- Bird, R. and Slack, E. (2002), *Land Taxation in Practice*, World Bank: Washington DC, United States.
- Bird, R.M. and Slack, E. (eds.) (2004), *International Handbook of Land and Property Taxation*, Edward Elgar Publishing Company.
- Bird, R.M. and Slack, E. (2006), "Taxing Land and Property in Emerging Economies: Raising Revenue... and More?", Paper prepared for the conference on Land Policies for Urban Development, Lincoln Institute of Land Policy, Cambridge, MA, United States, 5-6 June.
- Blackwell, F. (1994), 'Site Value Taxation', *The Valuer & Land Economist*, May, pp. 133-146.
- Brown, P.K. and Hepworth, M.A. (2002), *A Study of European Land Tax Systems*, Lincoln Institute of Land Policy.
- Brzeski, W. J. (2005), 'Bringing Area-based Formula Closer to Market', paper presented at the 8th international conference of the International Property Tax Institute, Prague, Czech Republic, 23-24 August.
- Chalk, G. (1989), *Committee of Inquiry into Valuation and Rating*, Brisbane, Queensland.
- Connellan, O. (2004), *Land Value Taxation in Britain: Experiences and Opportunities*, Lincoln Institute of Land Policy.
- Dos Santos, P. and Bain, L. (2004), 'Survey of the Caribbean Tax Systems', A Report of the Caribbean Organisation of Tax Administrators (COTA) on behalf of the Caribbean Community Secretariat (CARICOM.)
- Dowse, G. and Hargreaves, B. (1999), 'Rating Systems in New Zealand' in W.J. McCluskey (ed.), *Property Tax: An International Comparative Review*, Ashgate: Aldershot, pp. 283-312.
- Evans, L.W. (1996), *Review of State's Valuation System*, Department of Natural Resources, Brisbane, Queensland.
- Fibbens, M. (1995), Australian Rating and Taxing: Mass Appraisal Practice, *Journal of Property Tax Assessment and Administration*, Vol. 1, No. 3, pp. 61-77.
- Forster, G.A. (2000), 'Australia – Land and Property Tax System', *American Journal of Economics and Sociology*, December.
- Franzsen, R.C.D. (2005a), 'Property Taxation in South Africa' in McCluskey, W.J. and Franzsen, R.C.D. (eds.) *Land Value Taxation: An Applied Approach* Aldershot: Ashgate, pp.147-189.

- Franzsen, R.C.D. (2005b), 'Land Value Taxation in Western Australia' in McCluskey, W.J. and Franzsen, R.C.D. (eds.) *Land Value Taxation: An Applied Approach* Aldershot: Ashgate, pp.191-226.
- Franzsen, R.C.D. and McCluskey, W.J. (2005), 'An Exploratory Overview of Property Taxation in the Commonwealth of Nations', Lincoln Institute of Land Policy (see <http://www.lincolninst.edu/pubs/pub-detail.asp?id=1069>) (pp 249).
- Geho, M.L. (2006), 'Mass Appraisal in Tanzania', The First symposium of the World's Best Practices in Mass Appraisal for Asia, Thai Appraisal Foundation, 25-26 August, Bangkok, Thailand, Published proceedings: pp187-212.
- Hassan, A. (2005), 'The Local Government Rating System in Fiji' in McCluskey, W.J. and Franzsen, R.C.D. (eds.), *Land Value Taxation: An Applied Analysis*, Ashgate Publishing Limited, Aldershot, England, pp. 65-90.
- Hargreaves, R. (1991), *Is Site Value Still an Appropriate Basis for Property Taxation?* Paper presented at International Conference on Property Taxation and its Interaction with Land Policy, Lincoln Institute of Land Policy, Cambridge, MA, pp. 88-128.
- Harriss, C.L. (1970), 'Transition to land Value Taxation: Some Major Problems' in Holland, D.M. (ed.), *The Assessment of Land Value*, TRED-5, University of Wisconsin Press, Madison, United States.
- Herps, D. (1988), 'Land Value Taxation in Australia and its Potential for Reforming our Chaotic Tax System', Walsh Memorial Bequest Address, Macquarie University School of Economics, reprinted by Earthsharing in 2001. (see www.earthsharing.org.au/herps.html).
- Holland, D. and Follain, J. (1990), 'The Property Tax in Jamaica' in Bahl, R. (Ed), *The Jamaican Tax Reform*, Lincoln Institute of Land Policy, Cambridge, MA, United States, pp. 605-639.
- Hornby, D. (1999), 'Property Taxes in Australia' in McCluskey, W.J. (ed.) *Property Tax: An International Comparative Review* Aldershot: Ashgate, pp. 313-336.
- Horsley, G.J. (1986), 'Local Taxation', *New Zealand Valuer*, Vol. 27, pp. 88-92.
- Kelly, R. (2004), 'Property Taxation in Kenya' in Bird, R. and Slack, E. (eds.) *International Handbook of Land and Property Taxation*, Edward Elgar Publishing Limited, UK, pp. 177-188.
- Kirby, A. (1997), 'Computer Assisted Mass Appraisal: the Queensland Experience' in W.J. McCluskey and A.S. Adair (eds.), *Computer Assisted Mass Appraisal: an International Review*, Ashgate Publishing Limited, Aldershot, England, pp. 187-209.
- Konyimbih, T. (2001), 'Urban Ad Valorem Land Tax: Implementation Experiences in Some Kenyan Towns' *Journal of Property Tax Assessment and Administration*, Vol. 6, No. 3, pp. 19-44.
- Lynn, A.D. (1970), 'Legal Problems and Obstacles in Assessing Land for Site Value Taxation' in Holland, D.M. (ed.), *The Assessment of Land Value*, TRED-5, University of Wisconsin Press, Madison, United States.
- Lyons, S. and McCluskey, W.J. (1999), 'Unimproved land value taxation in Jamaica' in McCluskey, W.J. (ed.) *Property Tax: An International Comparative Review* Ashgate: Aldershot, pp. 385-410.
- McCluskey, W.J. (2005a), 'Land Taxation: The Case of Jamaica' in McCluskey, W.J. and Franzsen, R.C.D. (eds.) *Land Value Taxation: An Applied Approach* Aldershot: Ashgate, pp. 19-63.
- McCluskey, W.J. (2005b), 'Property Tax Systems and Rating in New Zealand' in McCluskey, W.J. and Franzsen, R.C.D. (eds.) *Land Value Taxation: An Applied Approach* Aldershot: Ashgate, pp. 115-146.
- McCluskey, W.J. (2005c), 'Site Value Taxation in Queensland' in McCluskey, W.J. and Franzsen, R.C.D. (eds.) *Land Value Taxation: An Applied Approach* Aldershot: Ashgate, pp. 227-252.

- McCluskey, W.J. and Franzsen, R.C.D. (2004), 'The Basis of the Property Tax: A Case Study Analysis of New Zealand and South Africa', Lincoln Institute of Land Policy Working Paper WP04WM1.
- McCluskey, W.J. and Franzsen, R.C.D. (2005), *Land Value Taxation: An Applied Approach* Ashgate Publishing Company: Aldershot, UK (pp 263).
- McCluskey, W.J. and Franzsen, R.C.D. (2001), '*Land Value Taxation: A Case Study Approach*', Lincoln Institute of Land Policy, Cambridge, Massachusetts, United States, Working Paper WP01WM1.
- McCluskey, W.J. and Williams, B. (1999), 'Introduction: a comparative evaluation', in McCluskey, W.J. (ed.) *Property Tax: An International Comparative Review* Ashgate: Aldershot, pp 1-31.
- Murray, J.F.N. (1956), *Report to the Government of Jamaica on Valuation, Land Taxation and Rating*, Government of Jamaica, Kingston.
- Narayan, V. (2002), 'Rating Appraisal in Fiji', *Journal of Property Tax Assessment and Administration*, Vol. 7, No. 2, pp. 43-76.
- Netzer, D. (1998), 'The Relevance and Feasibility of Land Value Taxation in the Rich Countries', in Netzer, D. (Ed.), *Land Value Taxation: Can It and Will It Work Today?*, Cambridge, MA, Lincoln Institute of Land Policy.
- Netzer, D. (Ed.), (1998), *Land Value Taxation: Can It and Will It Work Today?*, Cambridge, MA, Lincoln Institute of Land Policy.
- Office of the Prime Minister. (2001), Press Briefing (see http://www.belize.gov.bz/pressoffice/cabinet_briefing/2001/cabinet_meeting04_2001.html)(accessed June 2005).
- Olima, W.H.A. (1999), 'Real Property Taxation in Kenya' in McCluskey, W.J. (ed.) *Property Tax: An International Comparative Review* Ashgate: Aldershot, pp. 21-31.
- Olima, W.H.A. (2005), 'Land Value Taxation in Kenya' in McCluskey, W.J. and Franzsen, R.C.D. (eds.) *Land Value Taxation: An Applied Approach* Aldershot: Ashgate, pp. 91-114.
- Olima, W.H.A. and Syagga, P.M. (1996), 'Rating System in Kenya: Evolution, Constraints and Potential' *Journal of Property Tax Assessment and Administration*, Vol. 2, No. 1, pp. 21-31.
- Republic of Namibia. (2005), 'Implementation of land tax on commercial agricultural land in Namibia', Ministry of Lands and Resettlement, Directorate of Valuations and Estate Management.
- Risden, O. St. C. (1977), *An Analysis of Alternative Strategies for the Period 1977 to the Decade of the 1980s*, Land Valuation Office, Kingston, Jamaica.
- Rosengard, J.K. (1997), *Property Tax Reform in Developing Countries* Boston: Kluwer Academic Publisher.
- SADOCC. (2006, 'Land tax brings in millions says minister/Namibia selected for US aid' Southern Africa Documentation and Cooperation Centre, March 2006 (<http://www.sadocc.at/news/2006/2006-038.shtml>)(accessed September 2006).
- Sjoquist, D.L. (2005), *The Land Value Tax in Jamaica: An Analysis and Options for Reform*, Working paper 05-11, Andrew Young School of Policy Studies, Georgia State University, pp. 1-31.
- Slack, E. (2004), 'Property Taxation in Australia' in R.M. Bird and E. Slack (eds.), *International Handbook of Land and Property Taxation*, Edward Elgar Publishing Limited, UK, pp. 91-97.
- Smith, J. (2004), '*Land Value Taxation*', (www.earthsharing.org.au)(accessed November 2004).
- Smith, S. (2005), *Land Tax: An Update*, Briefing Paper No 5/05 for the NSW Parliament, NSW Parliamentary Library Research Service.
- Strasma, J. et al. (1990), 'Agricultural Taxation in Theory and Practice' in Bird, R.M. and Oldman, O. (eds.) *Taxation in Developing Countries* (4th ed.), Johns Hopkins University Press: Baltimore, pp. 439-448.

- Tiits, T. and Tomson, A. (1999), 'Land Value Taxation in Estonia' in McCluskey, W.J. and Franzsen, R.C.D. (eds.) *Land Value Taxation: An Applied Approach* Aldershot: Ashgate, pp. 375-384.
- Woolf, B. (1986), 'Arguments in Favour of Unimproved Value as Compared to Improved Value as a Bases for Tax on Urban Land', *The Valuer*, April, pp. 107-123.
- Youngman, J.M. and Malme, J.H. (1994), *An International Survey of Taxes on Land and Buildings* Boston: Kluwer.

Annexure A: Countries providing for and utilising some form of Site Value Taxation

Country	Legislation	Practice
Africa		
Kenya	X	X
Namibia	X	X ¹
South Africa ²	X	X
Swaziland	X	
Zimbabwe	X	X
Asia		
Japan	X	X
South Korea	X	X
Taiwan	X	X
Thailand ³	X	X
Australia and the South Pacific		
Australia	X	X
Fiji	X	X
New Zealand	X	X
Papua New Guinea	X	X
Solomon Islands	X	X
Vanuatu	X	X
Caribbean and Latin America		
Bahamas	X	X
Barbados	X	X
Belize ⁴	X	X
Jamaica	X	X
Montserrat ⁵	X	X
Europe		
Denmark	X	X
Estonia ⁶	(X)	
France	X	X

Sources: Franzsen and McCluskey, 2005; Bird and Slack, 2004; Dos Santos and Bain, 2004; Brown and Hepworth, 2002; Bahl, 1998; Youngman and Malme, 1994.

Notes:

1. To accelerate land reform in Namibia, a specific tax on unimproved site values on commercial farms was introduced in 2004.
2. Although site value taxation is presently still used by some municipalities in South Africa, it will be phased out by 2009.
3. The land development tax in Thailand is assessed on the land value of the property, no account being taken of any improvements thereon or of any crops. This land value is the product of the area of the property and the so-called "medium value" of land within the tax district or part of the tax district in which the particular property is situated (Bird and Slack, 2004).
4. Amendments to property tax legislation in 1999 allowed the capital city Belmopan to introduce a site-value tax.
5. Montserrat, a British dependency, levies a land tax on undeveloped land owned by non-citizens.
6. Estonia levied a land value tax since 1993 (Tiits and Tomson, 1999), but as the capital market developed replaced it with a tax on improved capital value in 2004.