

# **LAND VALUES RESEARCH GROUP**

## ***SUPPLEMENTARY SUBMISSIONS***

**to**

**THE ROYAL COMMISSION ON RATING**

**AND VALUATION**

**NEW SOUTH WALES**

**1966**

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New South Wales, 1966.

These are further submissions foreshadowed in our original submissions to the Commission which dealt only with Questions 1 to 4 in the terms of reference.

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SECTION 1.

LAND VALUES RESEARCH GROUP.

SUPPLEMENTARY SUBMISSIONS

REFERENCES TO OTHER RECENT AUSTRALIAN COMMITTEES OF INQUIRY  
BEARING UPON THE MERITS OF THE ALTERNATIVE RATING SYSTEMS  
WHICH MAY HELP THE COMMISSION IN ITS PRESENT INQUIRY.

1. The Bridge Committee Report on matters arising under the Valuation of Land Act 1916 - 1951, presented in September, 1960.

This exhaustive and valuable Report to the N.S.W. Government upon various matters touching on land valuation and rating will be familiar to the Commission already and doubtless will be referred to in any case. However, we feel we should formally draw attention to some paragraphs from that Report which we consider particularly significant and directly relevant to the relative merits of the alternative rating systems as discussed under Question No. 3 of the terms of reference. These paragraphs are in the series numbered 377 to 399 and are included in the Appendix "N" as part of these submissions.

2. The Report of the Local Government Association of New South Wales on "Local Government Rating" adopted in June, 1964.

The main relevant parts of this Report have already been brought before the Commission as Appendix B, pages 103 to 112 of the submissions from the Local Government Association and it is not necessary to repeat them here.

The significance of this Report is that it was the result of a very exhaustive inquiry in the course of which the Committee concerned examined the local government rating system critically and was prepared to make radical recommendations if they were considered warranted. The matters considered were set out in an appendix to the Report. Among other sources they considered the Bridge Committee Report and specifically the arguments put forward to that Committee by proponents of Assessed Annual Value rating and the criticisms of these arguments as expressed in the Bridge Committee Report paragraphs referred to under item 1 above.

They finally rejected the arguments for assessed annual value rating and endorsed the views of the Bridge Committee Report which pointed out that "many of the arguments in favour of assessed annual value rating were not in that Committee's opinion well founded".

In doing so they added to the Bridge Committee criticisms of assessed annual value rating five important points of criticism of their own as listed on page 106 of the L.G.A. submission - and also added that in the United Kingdom, where a system equivalent to assessed annual value rating was in force, there was a strong move away from it. The five new points made in that Report were as follows :

- (1) There is still much room for development or re-development, even in the most built-up areas ;
- (2) the opportunities for and advantages of holding vacant land, even in the heart of developed areas and commercial centres, would be increased, and land speculation would be thereby encouraged ;
- (3) the Government's Committee on Valuation stated that many anomalies would arise in assessing values ;
- (4) better type development, particularly with factories and commercial buildings, would be discouraged ;
- (5) a survey made by the City of Sydney in 1950, showed that this system would have penalised the factory owner, the house investor, the home owner, and the small shopkeeper, to the benefit of the large business interests in close proximity to the City.

After investigating the objections to Unimproved Capital Value rating, the L. G. A. Report said ( page 107) :

" However, the investigations of the alternatives constitutionally available to Local Government in N.S.W. left the Association with no possible conclusion other than that it must endeavour to find its answers within the broad framework of the existing system of rating on the Unimproved Capital Value."

The L. G. A. report itself adds that " This in effect, was the conclusion of the Special Valuation Committee ( Bridge's Committee ) when it said in paragraph 384 of its report :

" The Committee considers it would be impossible to devise a system of land rating or taxing which would make the burden fall with absolutely fair weight upon the shoulders of all persons subject to the rate or tax, but unimproved capital value rating generally reflects ability to pay and appears to be the fairest system for raising revenue, for local government purposes, from land. Any attempt to remove what the Local Government and Shires Associations refer to as 'the disproportionate contribution as between the lowly valued and the highly valued property' can only be achieved if additional rate burdens are imposed upon the lowly valued property, and if that were done persons with less ability to pay could well be adversely affected. This would result in more protests and claims of hardship and anomalies than are now made under the existing system ".

The Association then gave consideration to two relatively minor factors which appeared to it to warrant adjustment, at least in part to the present system. These two suggested amendments have been included in the submissions made by the Association to the Commission. We consider these particular suggested amendments are not warranted for reasons set out in Sections 2 and 3 of our present submissions where they are dealt with more fully.

However, the important point to draw to the Commission's attention here is that an investigating committee set up by the Local Government Association - which could have been expected to be predisposed to press for radical changes in the system as it had already done to the Bridge Committee, though its views were not accepted by that Committee -- finally ended up by reaching the same general conclusion as the Bridge Committee viz. favouring the Unimproved Land Value rating system and opposing return to the practice of rating owners' improvements. The Report was then adopted as that of the Local Government Association itself after circulation to members and discussion at its Conference.

3. Report of the Committee appointed by the Brisbane City Council in 1963 to inquire and advise on the present basis of rating on unimproved capital value of land.

This was a widely representative Committee of Inquiry with chairman Alderman N. L. Buchan, Vice-Mayor ; other Brisbane City Council representatives were Alderman H. A. G. Crawford, F. L. Olsen, F. N. Sleeman, J. H. Greening ( Property Consultant ), M. F. S. Todd ( Chief Assessor ), S. N. Wood ( Chief Accountant ) ; Real Estate Institute of Queensland, H. C. Dean ( President ) ; Trades and Labour Council, J. Egerton ; Brisbane Chamber of Commerce, N. Ellemor ( Immediate Past President ). C. Robertson ( Manager ) ; Queensland Chamber of Manufactures, N. W. H. Furness ( Councillor ) ; University of Queensland, K. W. Knight, ( Senior Lecturer in Public Administration ).

The Committee Report considered rating for general purposes, water and sewerage separately and found for each that the Unimproved Capital Value basis was the most suitable for all purposes but with a minimum charge for water and sewerage.

The only variation proposed in the basis of rating was that existing provisions be modified so that the U. C. V. be based on site value. That is to say works of levelling and filling and clearing should not be

treated as improvements in ascertaining unimproved values beyond a 10 years period from making them.

As a general principle the Committee felt that all property should be rated and that Commonwealth and State Governments should contribute sums equal to the General, Water and Sewerage rates on the U.C.V. basis which would have been payable had the lands not been Government owned.

The Summary in the Report, listing the terms of reference and the findings against each, is included as Exhibit "O" in the Appendix to our present submissions.

## SECTION 2.

### 4. MINIMUM RATES PER DWELLING UNIT.

- (1) A proposal for minimum charges on dwelling units was made in the L.G.A. submission.
- (2) The principle of a minimum charge in regard to small valued properties is not new. Where the base values are so low that the amount yielded would not cover the clerical cost in making out the assessment it is recognized practice to set such a minimum.
- (3) We consider this practice is reasonable provided that charge is strictly tied to the real minimum cost involved. It is recognized that the previous minimum of 2/6 is no longer realistic and that some increase would be reasonable.
- (4) But there is a danger that the whole principle of rating could be vitiated if councils were able to fix what minimum charge they liked without regard to the real costs.
- (5) We are concerned that this has already happened in some cases as disclosed on page 108 of the Local Government Association submissions where it is indicated that several suburban councils have fixed minimum rates at sums in excess of £10. We consider these amounts excessive and an abuse of the rating principle. We would think a charge of £1 or £2 could be justified.
- (6) It would be possible to completely destroy the basis of property rating by making the minimum charge high enough. It can become simply a disguised method of shifting the burden from large property owners to small properties.
- (7) There is an obvious temptation to abuse if the municipal councils themselves are left with the responsibility to fix a minimum for their territory.
- (8) We suggest that a more realistic minimum than the present 2/6 be fixed by amendment of the Local Government Act and that figure be applicable alike to all municipal units.
- (9) If this proves unacceptable and it is still left to local councils to fix their own minimum we recommend that the Local Government Act be amended to specify an upper limit to this minimum rate. In such case we would suggest that the minimum be specified as "not more than the average general rate payable over all dwelling units in the municipality as established by check of assessments."
- (10) But it should be pointed out that the need for setting a minimum at all hardly arises under the unimproved land value basis since vacant land will be paying about three times as much as it would under A.A.V.  
The need for the minimum is most felt under the A.A.V. system  
where such vacant lots escape their fair rate contribution.

5. IN REGARD TO COMMERCIAL PREMISES . . . . THE UNIMPROVED CAPITAL  
VALUE FOR LOCAL GOVERNMENT RATING PURPOSES BE INCREASED BY 10%  
OF THE BASE VALUE FOR EACH STOREY ABOVE THREE.

- (1) This proposal has been brought forward by the Local Government and Shires Associations of N.S. Wales. Two possible objectives in making such a proposal are :
- (A) To restrict multi-storey commercial building construction by artificially increasing the capital or annual cost of such building in the belief that buildings over three storeys are undesirable ;
- (B) To obtain a greater revenue from multi-storey commercial buildings than they would contribute under the unimproved land value basis to which all other types of property are to be subject.

The first is a town planning objective and the second a revenue one.

We consider that neither objective justifies the proposed change which should be rejected for the following reasons :

(A) The Town Planning Objective

- (2) The sponsors of the proposed amendment have not expressly stated that they regard commercial buildings in excess of three storeys as undesirable hence to be penalized. It appears they were thinking only of getting more revenue from them without considering the effect of the proposed tax on extra storeys beyond three in making multi-storey buildings an uneconomic proposition.
- (3) Yet it is evident that, to the extent that the proposed tax made such buildings unprofitable to construct or let, the visions of increased revenue from the tax would not be realised. The two objectives are inter-related and if the sponsors neglected to consider the effect of the tax their conclusion would be reached on the basis of only half the relevant data.
- (4) It is necessary for local authorities to make up their minds definitely whether they want commercial buildings beyond three storeys or not. We agree that by making such buildings less or un-economic the proposed tax would be an effective means to reduce the number of such buildings constructed. Just as the notorious Window Tax in Britain was effective in causing houses to be built without windows to avoid the tax.
- (5) But if it is considered a legitimate town planning objective to prohibit multi-storey commercial buildings we should point out that municipal councils already have complete power to do this under the building regulations which they administer in issuing building permits.
- (6) We consider this would be a better, more efficient, more honorable way than to seek to do it indirectly through the rating system.
- (7) Municipal councils have full power to prevent construction of multi-storey business buildings if they wish by refusing permits unless they comply with uniform building regulations. But in exercising this control councils do it deliberately and councillors must be prepared to accept responsibility and to support their decision against criticism and appeal.
- (8) The proposed tax on buildings of over three storeys could effect the same result as rejection of a building permit application - but without councillors having to be answerable to their ratepayers and without possibility of the result being altered by the appeal process provided for the protection of ratepayers under the permit system. It could have this effect by making the project uneconomic from its conception and thus futile to apply to the council for a permit at all.
- (9) Municipal councils have the power to fix the number of storeys they regard as standard development for their territory. They exercise this control by fixing the standard ratio of ' Floor Area / Site Area ' for their council.

They can set this to restrict building to the equivalent of three storeys or even less if they wish.

- (10) This ratio 'floor area / site area' restricts the maximum rentable building area which can be got from that site. Broadly this maximum rentable space can either be spread compactly over a few storeys each occupying the whole site or over a larger number of storeys occupying part only of the site. This can be effected by various means such as set-backs or tower construction. The vital point is that in either case the total rentable space is approximately the same.  
The second alternative with multiple storeys over part of the site has a much more pleasing effect to occupiers and public. This is achieved at greater constructional cost to the builders covered by higher rents which tenants are willing to pay for the better building.
- (11) Behind the proposal to tax commercial buildings in excess of three storeys lies the unexpressed ( but widely held ) belief that by building multi-storey commercial site owners are getting a greatly increased return free of extra rates. THIS BELIEF IS FALLACIOUS. They will only have the same rental space to sell whether they build low or high. Their U.C.V. rate payments too will be the same in either case.
- (12) Another idea behind the proposal is that with the multi-storey buildings there will be many more tenants requiring more municipal services without bringing in further rates. THIS IDEA TOO IS FALLACIOUS. As the maximum rental space is the same whether there be few or many storeys the number of tenants and demand for services will be the same under either arrangement as also will be the rate revenue at the particular moment considered.
- (13) Under these conditions the proposal for the unimproved value to be increased by 10% for each storey over three reduces to an absurdity. If the owner puts up a building occupying only one quarter of the site with the rest landscaped or otherwise beautified but with 13 storeys instead of 3 he would be taxed twice as much ( though his rentable floor space was the same and the council services available and used the same ). The position is Gilbertian.
- (14) Taking the practical example of a multi-storey building ( 12 floors ) already given in paragraph ( 24 ) of our submissions on question 3 of the terms of reference, with all rates on U.C.V. the site would pay £17, 207 irrespective of the number of storeys under normal rating. This is quite a substantial amount being equal to the payments of about 340 normal suburban homes. But under this proposed tax on the extra storeys above three its payments would be increased to £32, 693 - approximately equal to the payments on 650 normal suburban homes. Under these conditions it would become a doubtful economic proposition even though the rating system was nominally described as 'unimproved value'.
- (15) It is disquieting to find that this proposal could have gone so far as it did without calling upon technical advice which would quickly have disclosed its weaknesses. The controlling factor of the 'floor area / site area' ratio and the other town planning considerations are common knowledge to architects and council building inspectors dealing with the requirements for building permits. They could have saved the Association from pressing an essentially unsound and regressive proposal.

#### (B) The Revenue Objective

- (16) A rate embodies the principle of uniformity in contribution by all ratepayers upon the unit of value of their property within the council area. It is upon this idea of relative justice in treatment between one ratepayer and his neighbour that the public acceptance of the rating system rests.

A tax is an arbitrary contribution varying per unit of value between one ratepayer and another.

The two are generally grouped together under the common heading 'local taxation' but it is important to keep the difference in their nature in mind.

- (17) The extra payment sought from multi-storey commercial premises under this proposal - though called a rate on unimproved land value - would in fact be a tax upon the value of the improvements above three floors.
- (18) It would destroy the principle of relative equity in treatment which is an objective sought in the rating system.
- (19) It would be a negation of the principle of unimproved value rating which the Local Government and Shires Association has itself endorsed in its own report and submissions.
- (20) It would not fall equally on all properties with equal site-value ( which is the basic unimproved value principle ) but only on those sites having more than three storeys erected upon them.
- (21) The extra payments would be directly proportionate to the number of floors above three and thus a direct tax upon the building and not upon the site.
- (22) It would mean that the building industry would be faced with a new and capricious element with the possibility of extra taxes which would inevitably mean that projects otherwise viable would be ruled out as uneconomic.
- (23) It would be all the more objectionable since the imposition and magnitude of the tax would be at the whim of the local council. Even though no tax were payable initially it could be imposed at any time. It would be a constant threat which could turn profit into loss for existing buildings. It could require setting aside funds from income.
- (24) As already indicated under submission 11 the rentable space would be the same under the multi-storey project as its equivalent 'floor area/site area ' structure using the whole site with less floors.
- (25) As already indicated under submission 12 the tenants and demand for services would be the same under both alternative building projects.
- (26) It might be noted that the proposal was developed by suburban councils and not those of the central area where site rents and land prices are so high that it becomes uneconomic to build low structures profitably.
- (27) The proposal appears to have been based on the theoretical possibility that multi-storey commercial buildings might become common in suburban business centres in the near future and not from the existence of any immediate problem.
- (28) This theoretical approach has overlooked that there are natural correctives that are adequate in themselves to prevent extensive development of multi-storey commercial buildings in suburban areas.
- (29) The reason for this is simply that while it may be theoretically possible to build multi-storey commercial buildings on the lower value suburban sites it is not an economically paying proposition generally because the number of potential tenants and rents obtainable for these multi-storey suburban buildings would be too low to make them economic propositions, particularly bearing in mind the substantially increased constructional costs and those for the much more expensive lifts and other arrangements required with multi-storey buildings.
- (30) Tenants will pay high rents for property in the central city area for prestige reasons and for proximity to their potential clients and other related businesses. There, multi-storey buildings are crammed together, their existence seems appropriate and there is prestige in occupying space in such buildings for which tenants are prepared to pay. Tenants will not be found willing to pay anywhere near such rents in a multi-storey building in the suburbs, where tenancy in such a building seems out of keeping with the surroundings and the tenants would feel 'like a shag on a rock' .

- (31) That the sponsors of the proposed tax on commercial buildings in excess of three storeys were not too sure that their recommendation was sound is evident in the qualifications with which it was surrounded on page 27 of the Local Government and Shires Associations submission to the Royal Commission. This proviso made its use discretionary and subject to proclamation ( i.e., Ministerial approval ). This passed the responsibility for the ultimate decision from the local councils to the Minister or such advisers as he might turn to to assist him.

#### SECTION 4.

Questions Nos. 6 and 7.

#### ON WHAT BASIS IF ANY SHOULD REVENUE AVAILABLE TO COUNCILS FROM RATING BE SUPPLEMENTED AND FROM WHAT SOURCE ?

If a rate on land is not the most appropriate method of financing the services which Councils are authorised to provide under the Local Government Act, 1919, how should such services be financed ?

6. We deal with these two related questions together as the issues raised are the same and in regard to them make the following submissions :

#### PART A. - GENERAL SUBMISSIONS

- (1) A rate on land value is a natural, legitimate and adequate source for Local Government revenue and its whole needs from the taxation process should be satisfied by such a rate.
- (2) State and Federal Governments also have claims to impose rates or taxes on land value :
- (3) Of these three claims that of Local Government should take precedence over State and Commonwealth Governments on the basis that local rating on land value be the sole revenue source open to Local Government using the taxation power whereas State and Federal Governments now use other taxation sources as well ;
- (4) If the question of saturation in rating ever arises between these three levels of government it should be the State and Federal Governments that withdraw from or reduce the scale of their taxes on land value and not Local Government.
- (5) This requires that rating on land value be in fact the only taxation source available to Local Government for its revenue. It also implies that Local Government should not expect State or Federal Government grants or subsidies, since they involve the taxation power and would vitiate the clear claim of Local Government for precedence in the land value rating field.
- (6) If grants and subsidies to local councils from State and Commonwealth Governments are nevertheless continued for specific purposes they should require to be matched with proportionate amounts from rate revenue and not given without tags. This is to ensure that councils bear a share of responsibility to their ratepayers for their expenditure and do not rely on Government handouts. But the aim should be to progressively reduce the extent of reliance upon outside sources for municipal revenue and make extended use of existing rating powers.
- (7) We do not consider the removal of payroll tax or exemptions from rating on State and Federal Government properties as grants or subsidies in the terms of the submission above. The campaign for their removal is simply to make rate funds go further and to rectify legitimate grievances by putting such governments on a similar basis to private individuals to bear their fair share of rates and we support these proposals. It is due to the varying

concentration of such rate-exempt properties in some municipalities as against others that relative injustice is caused leading to the demand for grants and thus eroding the position of Local Government.

- (8) Under this clear-cut concept of land value rating as the only source of Local Government revenue from the taxation power the question of providing supplementary revenue sources for Local Government should not arise unless it can be established that local rating on land values is unable to provide enough revenue for Local Government alone even if State and Federal Governments evacuated this field completely in favour of Local Government.
- (9) The proposition that a rate on the unimproved value of the land is not in itself capable of providing sufficient revenue for all Local Government needs without hardship is seen to be untenable from the following theoretical considerations.

The 'local rate on the unimproved rental or capital value of the land simply ploughs back into the public treasury a part ( usually a very small part ) of a rental or capital value actually given by the community to the site held by the rate-payer.

This is a potential income given to him additional to whatever income he gets by actually developing and using the site or letting the improvements to tenants. There can be no hardship or injustice to anyone in asking him to pass back to the community a proportion of this special benefit he has received from it - to enable the community to extend to others the same kind of services which have made possible his own enrichment.

The rate payment could only become 'too high' if it exceeded the rental value given to the bare site excluding that attributable to improvements. In that case the ratepayer would be placed at an economic disadvantage compared to non-property holders. That position is far from being reached in Australia.

- (10) We are aware of a campaign to build up public demand to supplement rating by revenue from other sources on grounds that 'rates are too high' and that submissions have been made to the Commission on these lines but consider it based on misinterpretation of the facts which are cited in its support. The matter is so important that we deal with it more fully under a special heading in the more detailed submissions in Part B.
- (11) As compared with Local Rating the various alternative sources suggested for supplementary revenue have the fundamental objection that their incidence would work against the interests of the community by increasing penalties upon land put to its best use and simultaneously reducing penalties upon land held out of use or under-used. They would work to reduce the number of people putting land to good use and hence adding to the G.N.P. ( Gross National Product.) They would work to reduce the G.N.P. or retard its growth and hence to make the whole community poorer. They would tend to channel investment from productive land-use and divert it to sterile land speculation and to bid up the price of land against prospective users.
- (12) Local Government finance cannot rightly be considered in isolation from the incidence of State and Commonwealth taxation. The mere fact that increased grants, subsidies or taxes are suggested to supplement rating immediately brings the question into the field of general taxation. To reduce local government rates would be futile if it merely means that the same people pay more in State or Federal taxes. The ultimate concern of each ratepayer is what is left to him after payment of both rates and taxes.
- (13) There is a direct connection between the Local Government rating system and the Commonwealth Government Income Tax system by which Local Government rates are deductible from the 'taxable income' figure on which income tax payments are based. In effect this is a subsidy or rebate

of part of the local rates which is given to the ratepayer himself. The percentage of the local rate payment so returned is calculated at the highest part of the sliding income tax scale applicable to the ratepayers income and therefore results that a high proportion of the local rates paid is returned to the ratepayer who is earning an income from his property. This rebate is available only to the land-user as such and not to the land speculator since idle land does not produce a cash income to set it against.

This rebate of income tax for local rates and land tax thus provides on balance over the total tax payments Local, State and Commonwealth, a nett differential in favour of the land user as distinct from the land speculator.

- (14) As this subsidy or rebate is only returnable to the taxpayer for local rates and land taxes actually paid it would be progressively reduced to the extent that local rates are replaced by grants or other forms of taxes not deductible for income tax purposes. At the same time the grants themselves would involve additional taxes by another level of Government which would inevitably fall heavily on those making good use of their sites. The nett result would be to reduce incentive to put land to best use and give a premium to under-use.
- (15) The rebate of income tax on local rates is especially important to the ratepayer who owns or is purchasing his home but does not own other property since this is the only taxable deduction allowed to this most numerous class of ratepayer on his property.

An owner of commercial industrial or residential property let to tenants is entitled to deductions for maintenance, insurance and other business costs from the gross income before tax and to deductions for local rates and land tax as well. But the single house-owner-occupier can only claim the last. The rebate or saving on the municipal rates to such a ratepayer will vary but will generally be between one-quarter and one-third of his local rate bill and in many cases will be more.

This rebate to the single-home-owner would be reduced to the extent that any other supplementary form of revenue not tax deductible for income tax purposes is resorted to in lieu of local rates, and would thus place this class of ratepayer at a disadvantage compared with all others.

- (16) The single-home-owner is the most numerous class of ratepayer and it is to lighten his financial burden that the proposals for revenue sources to supplement rates are claimed to be advanced. But in fact these proposals would hurt this class of ratepayer more than any other and his true interests are served by full use of the local rating system.
- (17) The real interests of ratepayers and Local Government generally would be served if Local Councils undertook educational campaigns to point out to their ratepayers that those making good use of their property - and particularly home owners - get back in rebate of income tax at least 25% of their rate payments, that this would not happen under the other alternative revenue sources suggested, and that it is to their advantage to extend the local rating system instead of such supplementary revenue sources.

## PART B. - MORE DETAILED SUBMISSIONS

### WHY THE CLAIM THAT 'RATES ARE TOO HIGH' IS FALLACIOUS.

- (18) The case for the view that rates are too high and need to be supplemented is based mainly on two broad statistical grounds :
- (a) That the percentage increase in rates in Australia since 1947 has been greater than for State and Federal taxes, population and price level indices ;
- (b) That local rates form a higher proportion of Local Government revenue in Australia than in some overseas countries citing particularly U.S.A.

(a) Inferences from Relative Percentage Increases in Local Rates and Government Taxes.

- (19) These are exemplified in the Local Government Association submissions to the Commission on page 39 where it is stated that between 1947 and 1962 N.S.W. Local Government rate collections increased by 550%, N.S.W. State Government taxes by 485%, and Commonwealth Government taxes by only 268%. This is also compared with the wholesale price index increase of 148% and population increase of only 34%. Alarming inferences are drawn from these percentages but quite unwarrantably. They provide a classic example of the danger of drawing conclusions from percentages alone without ensuring the bases are comparable.
- (20) The difference between the percentage increases for population and those for revenue statistics mainly shows the extent to which the currency has been debased with inflation. The percentage rise will inevitably be high for Local Government with the lowest base figure and lower for the Commonwealth Government with the highest base figure for reasons which have no connection with the extravagance or otherwise of the local administration.
- (21) At 1947 Local Government rates for N.S.W. totalled a mere £7.2 million while Commonwealth Taxation was £385.5 million. The increase in local rates to 1962 was only £39.7 million which is a 550% increase as stated. BUT an increase of the same amount in Commonwealth taxes on the larger base figure would only be a 10% increase. Neither percentage is of any real significance to the individuals who have to pay it. They are only concerned with the amount they are called upon to pay and whether it be a high percentage increase on a low starting figure or a low percentage increase on a much higher starting figure will make no difference to them if the amount is the same.
- (22) State Taxes have increased faster than Local Rates.
- (i) We should point out here that in arriving at the figure of 485% as the increase in State Taxes between 1947 and 1962 the Local Government Association has made a serious error in understating the extent of State Taxes at 1962. Its submission on page 39 gives the figure for that year as £47,037,000, whereas the true figure was £67,433,000. ( The figures for State Taxes are published regularly in detail for a series of years in each issue of the quarterly N.S.W. Statistical Bulletins of the Bureau of Census and Statistics. They are Table No. 76 of the issue for December quarter of 1964 used in preparing these submissions though the table number varies in different issues ). The figure of £47,037,000 quoted in the L. G. A. submission is merely that part of the State Taxes paid into the consolidated revenue fund. It excludes the whole range of motor vehicle taxes and poker machine taxes which together added £20,382,000 and which are rightly included by the Statist in the figure of £67,433,000 for Total State Taxes. In comparisons of the weight of taxes we are clearly concerned with the whole burden. The figure for 1947 has been correctly cited in the L. G. A. submission as £8,041,000 and the difference between this and the figure of £67,433,000 for 1962 is an increase of 739% ( not 485% as claimed in the L. G. A. submission ).
- (ii) This correction is of great importance since the L. G. A. case for grants has been largely built around the argument that local taxes are increasing at a faster rate than State Taxes. This carries the implication that it would be better to have the State or Commonwealth Governments impose some form of increased taxes and pass the proceeds to Local Government to supplement revenue from local rates.

That the percentage figure is regarded as vital to the L. G. A. argument is evident from the following portion from page 39 of their submission :

"These figures alone reveal an alarming trend. They assume even greater importance when it is appreciated that the increase in Local Government Taxes in N.S. Wales actually outstrips the increase in the taxes levied by both the N.S.W. Government and the Commonwealth."

That argument is vitiated by the error in the amount of State Taxes as the increase in Local Government Rates in N.S.W. between 1947 and 1962 at 550% is considerably less than the increase in State Taxes at 739% over the same period. State Taxes have in fact outstripped the increase in local Rates both as a percentage and in quantity - which is the more important item. In quantity the increase between 1947 and 1962 was £39, 680, 000 for Local Rates compared with £59, 392, 000 for State Taxes. The real position is the direct reverse of that claimed.

- (iii) We have confined this comparison to the increase from 1947 to 1962 since this was the period used by the L.G.A. but if it were extended to 1964 the differential would be even greater in favour of Local Rates as against State Taxes. To that year total rates for ordinary purposes had increased by 650% to £54, 167, 000 while State Taxes had increased by 1056% to £92, 959, 000 ( vide Statistical Bulletin No. 334 Tables 105 and 76 respectively ).

The real conclusion to be drawn from the comparison of trends in Local Rates and State Taxes is that the burdens imposed by State Taxes are increasing far more rapidly than with Local Rates and that increased revenue will be obtained with less hardship by the Local Rate method than by further State Taxes.

#### Increases in costs of specific services

- (iv) Alarming conclusions have been mistakenly drawn from the rapid increase in expenditure over the State on specific local government services. One example will be sufficient to put the matter into proper perspective. Page 51 of the L.G.A. submissions deals with the growth of expenditure on municipal libraries from £20, 625 for 1944. The figure for 1947 is not given but has been ascertained from the relative N.S.W. Statistical Register to be £108, 000 which rose to £1, 416, 000 for year 1962. The increase between those years was 1210% which looks enormous but in actual money involves only 10/4 per capita. The reason for the high percentage increase is simply that in the base year 1947 very few municipal councils operated library services whereas a high proportion of them have since established such a service. The basic unsoundness of the argument from percentages can be seen applied to those councils which did not have libraries at 1947 but did at 1962. For these the percentage increase is the total 1962 cost minus 1947 cost ( 0 ) divided by the 1947 cost ( 0 ) multiplied by 100. This gives a percentage figure of infinitely great magnitude which it would be impossible to express adequately on paper. It would appear from the percentage increase that it represented an intolerable burden and yet it would only involve the same sum of 10/4 per capita as for those councils which had libraries at 1947.

The same fantastically high percentage increases would be shown where sewerage is installed in a previously unsewered council area or other services extended to new areas, even though the actual cost per service might be the same as for areas supplied earlier.

- (b) Local Rates as a Proportion of Local Government Revenue in Australia compared with overseas countries.

- (23) A report of the Local Government Association adopted on 21st November 1960, gave the proportions which local property taxes bear to total Local Government revenue in various countries as : Australia, 61.2% ; United Kingdom, 40% ; Canada, 60.6% ; United States of America, 49.1% ; From this the superficial inference was drawn that Australian ratepayers are more harshly treated than those overseas and that the rating system needs to be supplemented by other revenue sources.

- (24) Yet these percentage figures are meaningless without considering at the same time the total local government revenue figures to which they applied ( and which were quoted with them for each country ) and above all what they work out at in payments per head of population. Clearly, 40% of United Kingdom's £1, 534 million is much more serious than 61% of Australia's total of only £98 million.
- (25) On a true comparison reduced to a ' per head of population ' basis Australia's average property rate payment worked out at only £A6.6 compared with United Kingdom £A15 ; Canada £A22.5 ; and United States of America £A24.7. Australia is in fact by far the lightest treated in local rating of the four and not the heaviest as claimed. On the facts cited by the Local Government Association itself Australia could well stand more than a tripling of the present level of Local Government rating and still be lighter than the United States which it cites as a pattern.
- (26) Moreover, the reason why Government grants and other revenues than rates form a higher proportion of total local government revenue in those other countries is simply that education and police services are administered and financed by local government bodies in United Kingdom, Canada and the United States whereas they are operated and financed by State Governments in Australia. If or when Local Government here undertakes administration of schools and police there might be a case for grants on a similar basis to those countries but certainly not under the present Local Government structure in Australia where local rates per head of population are less than one-third of those in United States and Canada.

Local Rates as a proportion of Total Taxes and the G.N.P.

- (27) A more recent independent comparison of the position of Federal, State and Local Tax collections in Australia and the United States for the fiscal year 1963 is contained in a report on "Property Taxes and Land Use Patterns in Australia and New Zealand by Professors A.M. Woodruff and L.L. Ecker-Racz, published in the "Tax Executive", October 1965, which gives some further helpful information on relative weight of local rates in the two countries.
- (28) From this we find that the percentage which local government property taxes bear to the total taxes in the two countries is respectively Australia, 7.0% ; United States, 15.2%. When we consider the question of saturation this is surely a most reliable indicator since whatever supplementary revenue sources might be given Local Government would involve taxes of one form or another. On this assessment the level of property taxes in U.S.A. is more than double that in Australia.
- (29) Expressed in another way, as a proportion of the Gross National Product (GNP), the same authority shows that local property taxes in Australia absorb only 1.4% of the G.N.P. compared to 3.4% in the United States. On this basis the burden in U.S.A. is  $2\frac{1}{2}$  times as great as in Australia. These figures show - perhaps more clearly than any others - how erroneous is the suggestion that rates have reached saturation in Australia where they absorb a mere 1.4% of the G.N.P.
- (30) Blanket complaints about rates in general being excessive are not true and can harm the cause of Local Government by making ratepayers generally resist commendable Council projects to improve the scale or level of Local Government services but which involve increased expenditure and hence more revenue. What is true is that on some properties rates are too high while on other properties they are too low. It is not the municipal rates which have this unbalance but the water, sewerage and drainage rates in the Greater Sydney, Newcastle and Broken Hill areas which are levied by separate rating authorities on the A.A.V. basis. Under this well-developed properties are over-charged and under-developed properties are under-charged.

SUITABILITY OF SOURCES WHICH HAVE BEEN SUGGESTED  
BY OTHERS TO SUPPLEMENT LOCAL RATES

COMMONWEALTH GRANTS

- (31) The suggestion has been made that the Commonwealth Government make grants to Local Government on an increased scale with or without tags. This would require that the Commonwealth Government impose new or increased taxes the proceeds of which it would hand over to Local Government.
- (32) This suggestion suffers from the political objection that it would leave the Commonwealth Government with the inevitable public criticism as tax gatherer while Local Government would have no responsibility except to spend the money.
- (33) Perhaps more important is that the reduction in Local Rates made possible by the grants would not benefit the ratepayers who are making good use of their property and are, therefore, most deserving of consideration. What they would appear to gain in lower rates would be exceeded in most cases by the increased Commonwealth Taxes they would pay. Forms of Commonwealth Taxes now levied - income tax, tariffs, sales taxes, pay roll tax, petrol tax etc. - have the common characteristic that they fall ultimately on those who are making good use of land for residential, commercial, industrial, primary production or mining purposes while those who fail to develop the potential of their properties escape.
- (34) The overall result would be to increase the total taxes on ratepayers making good use of their sites while reducing them on those making poor use of sites. There would be relative reduction or slower growth in the Gross National Product with channelling of investment funds to land speculation instead of use. The reduction of incentive would happen in two ways :
- (1) With a high proportion of those making good use of their sites the extra payments in increased Commonwealth taxes would exceed their prospective rate reductions through grants :
  - (2) The rebate of Commonwealth Income Tax to which owner-occupiers of single homes are now entitled on Local Rates paid by them would not be available to them on the extra Commonwealth taxes to be levied to enable grants to be made.
- (35) The magnitude of this income tax rebate to owner-occupiers of homes on the local rates paid, in the most common income brackets ranges from 27% to 40% of the amount paid in rates and can go to 66% for higher incomes. This is a very high rebate and the position of the owner-occupier ratepayer can only be worsened by resorting to Commonwealth Grants instead of Local Rates. This is the class of ratepayer in whose name claims for relief are generally made.
- (36) Typical examples showing rates payable on the three groups covering most single dwelling houses in Greater Wollongong, based on the material already submitted to the Commission by that City, are shown in Table A of Appendix "P". These are then used to show the magnitude of the income tax rebate to which owner occupiers are entitled on rates paid. These are shown in Table "B" of Appendix "P". A rebate to owner-occupiers of such magnitude - 27% to 40% on the most common incomes shown and more than this for higher income earners content with the same quality houses - is far greater than could be expected with grants offset by higher taxes. This rebate is available to all owner-occupiers of homes.
- (37) The inferiority of the Commonwealth Grant method from the view of the owner-occupiers of homes can be seen from a practical example. We take Greater Wollongong for which the following information on percentage distribution of the unimproved values and rates between various classes of property has already been given to the Commission in paragraph 229 of the submissions from that City :

<u>Zoning</u>	<u>Percentage of</u>	
	<u>Total</u>	<u>U.C.V.</u>
	<u>Rates</u>	
Residential	45.34	%
Industrial Coal Mines	.55	
Industrial, Other	33.00	
Commercial	16.00	
Others, including rural lands	5.11	
Total	100.00	

- (38) To whatever extent Commonwealth Grants are made to this council the consequent rate in the £ reduction would be spread over all these classifications in the above proportions.. Residential properties would only share to 45% while industrial, commercial and others would absorb 55%. Of the residential properties only about 60% would be owner-occupied and the rest tenanted. Thus only about 27% of the total grant would go in rate relief to the owner-occupier ratepayers. Against this small amount coming to them owner-occupiers would have to offset their increased taxes of other forms raised by the Commonwealth to provide the grants. None of these extra payments in other taxes would be rebateable.
- (39) They would thus have exchanged a certain annual rebate of income tax to the extent of 22 to 40% and upwards of the amount they paid in Local Rates - for a relatively minor saving in grant-less-increased-tax for some owner occupiers and an increase in total liability for others . The annual rebate of income tax for local rates paid is the entitlement of ALL owner-occupiers of homes and not just a few.

#### LOCAL INCOME TAXES

- (40) Apart from the difficulties involved in operating dual systems of income taxation by the Commonwealth and Local Governments with the inevitable complaints of overlapping and anomalies - the assumption that income taxes would be more suitable than Local Rates should not be accepted without critical examination.
- (41) We submit that income tax is demonstrably less suitable for the reason that income taxes fall ultimately upon those who are making good use of the land while those who make poor use of it escape lightly and those who hold land for speculation escape all contribution until they sell and then only pay once on a small fraction of what they get.
- (42) To whatever extent local rates might be replaced by income tax those making good use of their sites would pay more on balance and those making poor use of their sites would pay less.
- (43) This would be the immediate effect but the ultimate regressive effect through the reduction of incentive and channeling investment from production to land speculation would be a smaller national cake to share than with local rating on land.
- (44) It would moreover accentuate the disabilities already suffered by tenants as compared with owners. The latter would be relieved of all contribution as property owners while the tenants - who already pay the rates in their rents - would presumably continue to do this and have to pay in addition increased income tax rates to produce the revenue now obtained by local rates.
- (45) Fairness would require that rents be reduced to these tenants by the component now represented by rates. But unless it was made mandatory by legislation to do this it is unlikely to happen and tenants would be grossly ill-treated. We submit that it is even more important to assure that the tenant who has no equity in the property - is not put in the position of having to pay the rightful dues of the property owners who have the equity in the property - than it is to merely consider how groups of rate-payers or ratepayers in general can have their burdens lightened.

- (46) Under existing income tax provisions tenant occupiers of homes are already at a disadvantage compared with owner-occupiers receiving the same wage or salary. The latter not only receive a substantial rebate of income tax on their local rates ( which is not available to the tenant though he pays the rates in his rent ). But in fact the owner occupier has a real income greater than he is required to state on his income tax return by the difference between the rental value of his home and the outgoings in interest, principal payments, maintenance and other costs. For new homes with heavy outgoings, the difference would be small but for older homes now mortgage free it could be nearly the full rental. Such owner-occupiers are paying income tax on a lower total and at a lower tax-rate than relative justice between owners and tenants would require under the system.

### POLL TAXES

- (47) It is surprising to find that a 'poll tax' is seriously put forward to the Commission as a means of supplementing rate revenue. It would be hard to find a more discredited and objectionable form of taxation than this. To describe them as 'Residential Taxes' is a euphemism but their nature is essentially a Poll Tax.
- (48) The belief behind this proposal is that some people who are not ratepayers are escaping without making any contribution through municipal rates and should be required to make a separate contribution which was suggested as £5 per each adult resident within the district.
- (49) This belief is mistaken as non-property owners do pay their full share in rates under Local Government rating. That some people think otherwise simply shows misunderstanding of the theory of Local Government rating.
- (50) The basic principle of Local Government rating is that the landowner is the ultimate receiver of the site-rent, either paid directly to himself if owner-occupier, or in rent he receives from the tenant if the property is let. In essence he acts as a rent-collector and pays the Local Rates from the proceeds.
- (51) The Local Rate on land value calls upon each person or corporate body benefiting from the availability of municipal services whether used or not, to pay rates as nearly as practicable in proportion to the value of those benefits. That all beneficiaries do in fact contribute in rates will be evident by considering below the various groups which could make use of the municipal services :

(a) Vacant Land Owners

Pay the Local Rate according to value given their sites by availability of services. ( They would escape all payment as land owners under all the other alternative sources of local government revenue which have been suggested i.e. Income Taxes, Sales Taxes, Poll Taxes. )

(b) Owner-Occupiers of Dwellings.

Rates are paid directly to the council.

Also pay part of the rates on commercial properties in prices paid for goods.  
( see note # )

(c) Tenant Occupiers of Dwellings

Rates are paid indirectly to the council via owner or agent as rent collectors being included in the rent. Where agreements require the tenant to pay the rates directly the rent to the owner is correspondingly less than it would other wise be.

Also pay part of the rates on commercial properties in prices paid for goods.  
( see note # ).

(d) Boarders at Apartment Houses, Hotels etc.

Rates are paid as a component in the board paid to the proprietor from which the rates are paid to the council

Also pays part of the rates on commercial properties in prices paid for goods.  
(See note # )

(e) Spouses of Owners and Tenants

Included in the rate payment of their partner either as owner or tenant.  
As municipal services are made available to the site and have to be paid for whether used or not only one rate contribution is warranted from each site.

Also pays part of the rates on commercial properties in prices paid for goods.  
( See note # )

(f) Minors and Children of owners and tenants

Included in the rate payment of parent as for spouses above.

Also pays part of the rates on commercial properties in prices paid for goods.  
( See note # ).

(g) Persons who live elsewhere but visit the district to do shopping or other business

Pay part of the rates on commercial properties in the prices they pay for goods.  
( See note # )

(h) Persons who live elsewhere but work in the district.

Rate share included in the rates of their employer.

# (i) Commercial Properties      Note #

Rates paid to council by owners or tenants. But these rates are in reality paid by the customers of the shops in the rent component of the price of the goods the shops sell.

Thus owner-occupiers ; tenant occupiers ; boarders ; spouses ( who generally handle a large part of the family purse ); minors and children ( who may earn and spend themselves but at least will swell the local spending from the parents' income ); visitors from other districts who spend in the local shops - all combine to pay the rates of the commercial operators in the rent component of prices.

(j) Industrial properties

Rates paid to council by owners or tenants. But in reality these rates are covered in the rent component of price realised for the goods. The purchasers of these goods may be located in other municipalities, states or even countries.

In both these last groups the whole item rent including municipal rates is regarded as a business cost fully tax deductible before arriving at profit on which to assess income tax.

(52) How much do residents contribute in prices ?

In the case of Greater Wollongong, the total value of retail sales at the 1962 census was £42,842,000. Total rates in 1965 for Greater Wollongong were estimated at £3,890,000 ( £2,270,000 general rates and £1,620,000 water and sewerage ). From the data cited in paragraph (37) we see that 16.0% of the total rates are paid by commercial sites which works out at approximately £620,000 as the rate component in retail prices paid by customers of the shops. This portion of the rates is contributed by persons in groups (b) to (g) inclusive. This case is only illustrative of the general principle.

(53) Rates share of tenants.

The proportionate share paid by the owner-occupiers and tenant-occupiers of Wollongong homes is not available to us but can be taken as in the region of 40% tenants and 60% owners. The tenants are in fact ratepayers and any definition which excludes them - as done by the sponsors of the Poll Tax - is defective.

(54) Double Taxation

To require residential groups (b) owners ; (c) tenants ; (d) boarders and (e) spouses as above to pay a Poll Tax added to the rate component they already pay in their rent or purchases of goods would be double taxation of the worst type and would be inequitable.

The amount suggested for the Poll Tax by its sponsors was £5 per adult resident. This is a high figure and takes no account of differences in ability to pay. It would be the same for a pensioner or spouse as for a millionaire. It would undoubtedly lead to pressure for exemptions and claims of hardship.

Moreover, the general reduction in rates obtainable by this means would be spread over owners of commercial, industrial, tenanted residential property and vacant land owners living outside the municipality, none of whom would contribute to the Poll Tax.

#### OVERSEAS PRACTICE

(55) Some of the proposals to supplement Local Rates by central government grants, local taxes or local sales taxes have cited the fact that some overseas countries use these sources to a greater extent than here, as though their practice must be more advanced than ours and should be followed. This is a dangerous approach as it is well known that 'distant fields look green'. Moreover, many important progressive reforms have been developed in Australia and adopted many years later in these older countries for example, the Torrens system of land title registration.

(56) Among these local developments which are now being sought or adopted overseas is our modification of the local rating system to exclude that part of the land value attributable to owners' improvements. We consider that it is largely due to the incentive given to improvement by this change that the relatively high standard of living and diffusion of wealth achieved in Australia and New Zealand is due. These are all the more remarkable in countries with small populations separated by vast distances from one another and from their overseas markets and sources of supply.

(57) Indicative of the overseas demand in the United States of America and Canada to bring their local taxation practice into line with that of Australia, we commend the Commission's attention to the two publications listed below of which copies accompany these submissions :

- (1) Special edition of "House & Home", America's main journal dealing with building construction and related interests -

## A FINANCIAL NEW DEAL FOR LOCAL GOVERNMENT?

- (58) We conclude this section by referring again to the suggestion made in paragraph (17) for a complete change in the Public Relations approach of Local Government. The recent tendency has been to foment ratepayer dissatisfaction with rating in order to support approaches to the Commonwealth Government for grants to Local Government though these would involve taxes by another administration.
- (59) We submit that the better policy for Local Government is to take advantage of the fact that there is already available to it without the necessity to ask or campaign for it a means to give all owners of homes and other buildings a grant or subsidy of far greater magnitude than they could expect to get by any of the supplementary sources suggested.
- (60) This means exists in the deductability of Local Rates and Land Taxes from income subject to Income Tax. This grant, rebate or saving ranges from 22% of the Local Rates paid for the lowest income group of owner-occupiers of homes up to 66% for higher income grades of individual taxpayers. LOCAL RATES AND LAND TAX ARE THE ONLY ITEMS THAT ARE INCOME TAX DEDUCTABLE IN RESPECT OF THE OWNER-OCCUPIED HOMES OF RATEPAYERS. This most substantial rebate is available not merely to a FEW ratepayers but to ALL owner-occupier ratepayers.
- (61) Although this grant or rebate of rates in income tax is paid by the Commonwealth Government direct to the ratepayer himself instead of to Local Government it can enable the same desired end result of Local Government administration to be achieved -- i.e. to secure adequate revenue to provide expanded Local Government services without ratepayers' opposition to progressive programmes.
- (62) It is therefore to the interest of Local Government administrators to promote campaigns to point out to their ratepayers, particularly when sending out assessments, that the Councils concerned are aiming to bring their charges as far as possible into Local Rate form--since this gives ratepayers a substantial rebate in which ALL owner-occupiers will share and ranging in magnitude from 22% to 66% of their Local Rate--instead of other forms of charges not deductible for Income Tax. Councils should make clear the advantages of this to their ratepayers so that they will understand that their own interests are bound up with building up Local Government. We think ratepayers will appreciate the advantages in this policy when explained to them. There is little awareness among them of the tie-up with Income Tax simply because there has been no publicity given to educate them on its advantages to them.
- (63) In this way the State and Local Governments (which now feel financially hamstrung by the Commonwealth Government control of the purse) can help themselves to become less dependent upon that source through this currently accepted means immediately available.
- (64) With ratepayer acceptance of this policy, extension of Local Government functions could be pursued as the most efficient and least expensive level of Government being closest to the point at which the money is raised and spent and to the ratepayers concerned. Even without extension to new or expanded services there are channels in which special charges are made by Councils which are not tax deductible but could be made so by converting to rate method. For example excess water charges are not tax deductible whereas water rates are; fixed charges for garbage removal and other services also would be in this class.
- (65) In pursuing this policy Local Government administrators would have the additional sense of job satisfaction in the knowledge that the incidence of their system of Local Rating on land was to promote and encourage best use of land and thus to increase the Gross National Product which is the only ultimate means by which the level of well-being of all sections of the community can be raised.

377.

In considering the competing claims for assessed annual value and unimproved capital value rating the fact that the latter has been the basis of local government finance for the past fifty years, during which time remarkable progress has been made in the development of municipalities and shires and in the provision of essential services, must not be overlooked. It would require very good reasons to justify the abandonment of such a system in favour of a system which in past years was deliberately discarded by the Legislature. In the Committee's opinion no such reasons have been established. There is a tendency, both in the States of the Commonwealth and in certain countries overseas to adopt unimproved capital value rating.

379.

Many of the arguments in favour of assessed annual value rating were not, in the Committee's opinion, well founded. Certain claims assumed that, as the metropolitan area was largely built up, the need for unimproved capital value rating to encourage the development of land was no longer present. This assumption is not valid; and even in the City of Sydney and the adjacent municipalities the need for redevelopment to meet modern standards and conditions is just as evident today as it was in 1906 when unimproved capital value rating was first introduced. The development of a city is never complete and the Committee, whilst not suggesting that assessed annual value rating in itself would prevent rebuilding, does consider that it would be a penalty on development and a tax on improvements.

380.

The claim that assessed annual value rating should be adopted because it is related more to use of services and facilities than is unimproved capital value rating is overstated. The rate is essentially a contribution towards the cost of local government and it is used to provide services both direct and indirect which largely contribute to the development of the community and result in the enhancement of the value of land. It is not generally a payment for services rendered to a particular parcel of land. It might be prejudicial to the interests of local government and the general body of ratepayers to link the amount of rates paid in respect of each parcel of land with the services actually received or available to the occupants of that parcel.

381.

Highly valued land upon which are erected commercial or industrial buildings might derive little or no direct benefit from many of the services, particularly those of a social or amenity nature, which are provided by councils from rates. If the extent of the rate payable in respect of any parcel of land is to be based upon the extent of services supplied or available to that parcel of land, the owners of land used for industrial or commercial purposes might well press for a reduction in the rates payable. Likewise, the rates paid by the owner of highly valued residential land which is occupied by a single dwelling may be out of proportion to the rates paid by the owner of residential land of less value in the same area similarly occupied, although the demand on services and amenities by the latter may be greater than by the former. If the levy on one class of ratepayers is reduced an increase in the levy on another class is unavoidable; unless the council elects to reduce the level of its services.

382.

The alleged anomaly of the building containing residential flats and home units has also been overstated. The disparity in the rates paid, in respect of these lands, and lands used and suitable only for single dwellings is being lessened in many instances as sites zoned for high density housing command increasing prices. Complaints were made to the Committee that the prices paid for high density housing sites influence values for similarly suitable neighbouring sites occupied by single residences and that this caused hardship. The Committee points out that, where such hardship exists, relief to the owner is now available under section 160c of the Local Government Act.

384.

The Committee considers it would be impossible to devise a system of land rating or taxing which would make the burden fall with absolutely fair weight upon the shoulders of all persons subject to the rate or tax, but unimproved capital value rating generally reflects ability to pay and appears to be the fairest system for raising revenue, for local government purposes, from land. Any attempt to remove what the Local Government and Shires Associations refer to as "the disproportionate contribution as between the lowly valued and the highly valued property" can only be achieved if additional rate burdens are imposed upon the lowly valued property, and if that were done persons with less ability to pay could well be adversely affected. This would result in more protests and claims of hardship and anomalies than are now made under the existing system.

385.

If consideration is to be given to the adoption of assessed annual value rating it would be most desirable to investigate beforehand the effect of such a change in the incidence of rating. Evidence tendered to the Committee indicates that a high unimproved value frequently attaches to industrial land. Commercial land is generally of a higher value than residential land. The large contribution made to the rate revenue by industrial and commercial lands results in a smaller burden being borne by residential lands. Special features were claimed to exist with respect to certain industrial lands in the City of Greater Wollongong.

386.

The Council of the City of Sydney in 1950 made a sample analysis of the effect in different parts of the City of a change in the basis of rating from unimproved capital value to assessed annual value. The analysis showed that in areas comprised in the municipalities united with the City of Sydney in 1949 a change to assessed annual value would have penalised the factory owner, house investor, individual home owner and small shopkeeper, whilst the business interests in close proximity to the City proper would have gained. Similarly, in the inner City area a change to assessed annual value would have favoured, with exceptions, business and commercial home owners, small businessmen on the outskirts of the City and the owners of residential flat premises generally. A more comprehensive survey of local government areas would be necessary to indicate whether the results obtained by the Sydney City Council would now apply and, if so, whether the application would apply generally.

389.

The following appear to the Committee to be the only methods of rating land which are administratively practicable :

- (1) Rating on unimproved capital value.
- (2) Rating on improved capital value.
- (3) Rating on assessed annual value.
- (4) Rating partly on unimproved capital value and partly on improved capital value.
- (5) Rating partly on unimproved capital value and partly on assessed annual value.

390.

Methods (1) and (2) are possible under the Local Government Act, 1919. So is method (4) in the sense that councils can elect to make and levy special rates on the improved capital value of land for any specific purpose which may be undertaken ; to that extent the general fund is relieved of the expenditure and a lower general rate on unimproved capital value can be levied. Method (2) was suggested in submissions made by only two parties. In general, the Committee disfavours improved capital value as a basis for the levy of the general rate on the ground that it would be an obvious discouragement to development. Methods (3) and (5) are possible under the Metropolitan Water, Sewerage and Drainage Act, 1924, but as a matter of policy the Metropolitan Water, Sewerage and Drainage Board prefers to rate solely on assessed annual value.

Councils may now levy loan, local and special rates on either the unimproved capital value or the improved capital value of land. Many specific works which are now financed from proceeds of the general rate levied on unimproved capital value could be financed from the proceeds of a special rate levied on improved capital value. Councils have shown no inclination to levy rates on improved capital value and it is doubtful whether, if provision were made permitting the levying of the general rate partly on unimproved capital value and partly on improved capital value, they would depart from the generally convenient system of rating solely on unimproved capital value.

TABLE C

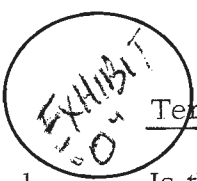
EXHIBIT " P "

CONVERSION OF ACTUAL INCOMES TO TAXABLE INCOMES IN ORDER TO FIND  
THE SAVING IN INCOME TAX OBTAINABLE BY LOCAL RATES BEING AN  
ALLOWABLE INCOME TAX DEDUCTION

RESIDENT INDIVIDUALS ONLY

Grade of Actual Income	Actual Income	Taxable Income	Percentage (3) Taxable (2) Actual	Actual Income at top of Grade	Proportion of Local Rates returned as Income Tax Deduction
(1)	(2)	(3)	(4)	(5)	(6)
£	£ '000	£ '000	%	£	Per £ (%)
900 - 999	313, 001	247, 094	79	790	3/4 (16)
1, 000 - 1, 099	365, 981	281, 318	77	847	3/6 (17)
1, 100 - 1, 199	374, 819	282, 913	76	912	3/8 (18)
1, 200 - 1, 299	351, 898	263, 585	75	975	3/10 (19)
1, 300 - 1, 399	324, 038	241, 949	75	1, 050	4/2 (21)
1, 400 - 1, 499	273, 984	204, 435	75	1, 125	4/4 (22)
1, 500 - 1, 999	867, 403	652, 604	75	1, 500	5/5 (27)
2, 000 - 2, 999	620, 283	483, 623	78	2, 340	7/1 (35)
3, 000 - 3, 999	241, 258	197, 669	82	3, 280	8/9 (44)
4, 000 - 4, 999	131, 679	111, 320	85	4, 250	9/9 (49)
5, 000 - 9, 999	210, 491	183, 689	87	8, 700	12/1 (60)
10, 000 - 14, 999	44, 778	39, 783	89	13, 350	12/8 (63)
15, 000 - 19, 999	15, 419	13, 636	88	17, 600	13/4 (66)
20, 000 - 29, 999	11, 551	9, 869	85	25, 500	13/4 (66)
30, 000 - 49, 999	6, 130	5, 138	84	42, 000	13/4 (66)
50, 000 and over	5, 455	4, 450	82		13/4 (66)

- (i) Columns (2) and (3) are taken from the dissection of Commonwealth Income Tax for individual taxpayers for Assessment Year 1963/64 on Page 93 of Quarterly Summary of Australian Statistics issued by the Commonwealth Bureau of Census and Statistics No. 258 of December 1965 .
- (ii) Taxable income in column (5) is after deducting Local Rates paid. These should be added to it to find the taxable income as it would be if Local Rates were not deductible.
- (iii) Column (6) is from Tax Tables "A" and "B" on page 4 of Income Tax Return Form S for year ended 30th June, 1965.



Terms of Reference

Findings

1. Is the present basis of levying rates for general purposes and for water and sewerage purposes on Unimproved Capital Value of land the most equitable one ?

The present basis of levying rates for general purposes and for water and sewerage purposes on the Unimproved Capital Value with the amendments as suggested is the most appropriate for Brisbane City Council.

11. Are there any inequalities in the rating of land on an Unimproved Capital Value ?

There are some inequalities in the rating of land on an Unimproved Capital Value but this applies also to other forms of rating.

111. Is there any merit in changing the present basis to a nett annual value basis of property for either General purposes or for water supply or sewerage rating or for all ?

The Committee after due consideration decided that a change from the present basis to rating on the nett annual value basis was not warranted.

- 1V. Does the incidence of uniform rating as at present react unfairly on certain classes of ratepayers ?

The present form of rating does react unfairly on certain classes of ratepayers and amendments suggested will reduce considerably the inequalities.

- V. Are benefited areas desirable in the City of Brisbane ?

The Committee is not in favour of benefited areas in the City of Brisbane as it considers that rating on Unimproved Capital Value will take account of improvements especially if the Committee's recommendation for interim valuations on appeal to the Valuer-General is adopted.

- VI. Is the principle of differential rating a desirable one ; and should the Local Authority have the right to fix a variable rate on properties under special circumstances of location such as -

- (a) Where usage is restricted by zoning ;
- (b) Where use is restricted by the inclusion in some defined areas such as a Drainage Problem area ;
- (c) Because of some proposal under a plan which is detrimental to its value at a particular time.

Terms of Reference

Findings

The principle of differential rating is not a desirable one and the instances mentioned in (a), (b) and (c) of clause 6 of the terms of reference are adequately provided for in the Unimproved Capital Value basis of rating, especially if the Committee's recommendation relating to an appeal to the Valuer-General for an amended valuation is adopted.

- VII. In any change recommended state the effect of such change on -
- (a) the home owner and tenant
  - (b) the real wages of workers
  - (c) the wholesale and retail trades
  - (d) the manufacturing industry
  - (e) mortgage assets of financial institutions
  - (f) land developers
  - (g) the building trades
  - (h) the multiple dwelling unit.

The amendments to the present basis of rating and of interim amended valuations will have no appreciable effect on the classification (a) to (g) but will affect the multiple dwelling unit (h) and residential properties other than private dwellings as the recommendations would result in additional water charges and increased sewerage rates in many instances.

- VIII. What, if any, general provision could be made to rate specially premises such as the Royal National Association, the Red Cross Society; and other similar bodies?

This matter was dealt with in a preliminary report and again referred to in this document under General rates.

- IX. What amendment of the law is desirable to give effect to the recommendations?

Amendments required will be dealt with in a report by the City Solicitor.

Sgd. N. L. Buchan  
Vice-Mayor - Chairman

Sgd. H. A. G. Crawford      Sgd. N. Ellemor      Sgd. K. W. Knight      Sgd. F. N. Sleeman  
Alderman.

Sgd. H. C. Dean      Sgd. N. W. H. Furness      Sgd. F. L. Olsen      Sgd. M. F. S. Todd

Sgd. J. Egerton      Sgd. J. H. Greening      Sgd. C. Robertson      Sgd. S. N. Wood.

TABLE A.

APPENDIX  
EXHIBIT  
EX-P 4

RATES PAYABLE ON TYPICAL HOMES  
IN THE GREATER WOLLONGONG MUNICIPALITY

These are taken from the submissions of Greater Wollongong Council to the Royal Commission on Valuation, Rates and Local Government Finance, Section 274. They are averages for the three ranges cited therein as covering most single dwelling houses.

Class of Home	Valuations		Rates Payable		Total
	U.C.V.	N.A.V.	General (on U.C.V.)	Water & Sewer ( on A.A.V.)	
	£	£	£	£	£
( 1 )	900	250	21.11. 3	19. 5. 5.	40. 16. 8
( 2 )	1000	300	23.19. 2	23. 2. 6.	47. 1. 8
( 3 )	1250	350	29.18. 11	26. 19. 7.	56. 18. 6

TABLE B.

REDUCTION IN INCOME TAX OBTAINABLE  
BY OWNER-OCCUPIERS OF HOMES DUE  
TO RATES PAYABLE BEING TAX-DEDUCTIBLE.

Class of Home	Total Rates Paid.	Actual Income of Owner Occupier is :			
		£1500 on which Tax Saving on rates :	£2000 on which Tax Saving on rates :	£2500 on which Tax Saving on rates :	£3000 on which Tax Saving on rates :
( 1 )	( 2 )	( 3 )	( 4 )	( 5 )	( 6 )
	£	£	£	£	£
( 1 )	40.8	9.0	11.0	13.1	16.3
( 2 )	47.1	10.4	12.7	15.1	18.8
( 3 )	56.9	12.5	15.4	18.2	22.8
# Taxable income with deductions other than local rates	=	1172	1547	1947	2400
<u>Tax reduction per £ of sum in column 2</u>	=	4/5	5/5	6/5	7/8
Percentage saving on rates	=	22%	27%	32%	40%

NOTE :

- (a) From Quarterly Summary of Australian Statistics, December 1965, tables on pages 108 and 109 the N.S.W. Minimum Adult Male Wage is £1050 annually, and N.S.W. Average Male Wage is £1470 annually. It is assumed that owner-occupiers will be in the groups with actual incomes exceeding £1500.
- (b) The taxable incomes after allowable deductions are as calculated in Table C on page three of the Appendix with £47 added to each column to get line #.
- (c) Only taxable incomes to £2400 have been considered here in conjunction with these typical homes. Beyond that income will generally occupy a higher quality house at higher rateable value. The proportionate saving in income tax by deduction of rates paid rises with income to 53% at £5000 and reaching a maximum of 66% saving at £15,000 taxable income.