

UN-TAXING BUILDINGS

RESULTS SPEAK FOR THEMSELVES

Un-taxing of buildings invariably results in an immediate and permanent raising of the building construction level compared with that experienced when they are rated (taxed).

This statement should have all the force of an axiom or self-evident truth. Its acceptance as such should not be dependent upon the production of proofs in operation. For anyone to argue that it will make no difference to peoples' willingness or ability to make improvements if they know that their action and expense in making those improvements will attract higher taxes is to insult his own intelligence and that of people generally. The only uncertainty about the question in a normal businessman's mind would lie in the possibility of un-taxing improvements, not in the multiplication of the scale of their production if one succeeds in un-taxing them.

In the field of local government taxation in this and other countries the possibility of un-taxing improvements does exist. In Australia, most of the States have either done it already or are a long way along the path to doing so. For Australia as a whole, two-thirds of all the local government units have made that change. In other countries it only requires simple enabling legislation to enable them to do likewise.

Strange Belief

Nevertheless, it is found that there are people who profess to believe that un-taxing buildings and other improvements would have little or no effect on building activity. It has been said that if any substantial vested interest was concerned, there would not be lacking protagonists of the view that the earth is flat instead of a globe. And it is a fact that there are a lot of people who are interested in the vacant land industry rather than the building industries.

For implementation all that is needed is for that part of the local taxes which now falls on the composite value of the site-plus-the buildings to be changed so that it falls on the value of the site alone. The tax (rate) upon the building component would be reduced to zero and that upon the site component correspondingly increased to return the same overall revenue to the local authority as under the other alternative method.

The level of building construction is of vital importance to the community in general and those whose livelihood is bound up with the building construction industries in particular. The vacant lot industry gives little employment and uses few materials. The building construction industries are basic to the economy. They are the start point of the attack on land price inflation and on unemployment resultant from the decline in the building industries.

Hence it is important to assess and publicise the extent to which the un-taxing of buildings will increase the level of building construction. This is important here and even more so abroad, where application is less general and factual data less readily available.

Observed Results

We propose in this and following issues to give the observed results of the stimulation to building construction after (as compared with before) shifting local taxes from buildings to sites. The information has been supplied by the Land Values Research Group by analysis of official data from the Bureau of Census and Statistics. The Group's earlier publication "Public Charges On Land Values" has

shown the superior general performance of the three States, Queensland, New South Wales and West Australia in which the changeover to site value taxation is almost complete. In these it is not possible to study the quantitative effects between one local authority and another. The stimulative effect can be studied in considerable detail in Victoria and to lesser extent in South Australia. We will show progressively what happened to building before and after the various specific local units changed over.

The aim will be to show the number of values of dwelling permits and the values of permits issued for other building activity for two or three years before and four or more years after the change took place. Primary importance is given to the numbers and values of the dwellings, which are the basic and most stable building construction content. New industrial and commercial buildings are more capricious from year to year and alterations and additions a small part of the total. Their content can be found by deduction from the figures for value of total building activity of that shown for the dwellings (i.e. houses and flats).

Rural Areas

There are fluctuations from year to year in the building levels over the state as a whole due to general economic and seasonal conditions. The pattern for the Melbourne metropolitan too is a little different from the rural areas comprising the rest of the State of Victoria. Commencing with the calendar year 1955 and extending to 1965 a year-by-year index of the dwelling commencements in rural councils taxing improvements has been prepared. The figure for 1955 was taken as base 100 and the later years related back to it. The sequence of years and commencement percentages in brackets on this index is: 1955 (100), 1956 (88), 1957 (88), 1958 (93), 1959 (105), 1960 (87), 1961 (77), 1962 (76), 1963 (87), 1964 (87), 1965 (92). This index is confined to the rural councils taxing buildings.

Applying this index to the commencements recorded for a particular council in its last year of taxed buildings enables it to be seen how many commencements could have been expected if the change to untaxed buildings had not been made. This index has been used to derive the figures shown in brackets in the places listed below, which show the rural councils which abolished local taxes on buildings in that 10 year period.

Why Rural Councils?

There are now 62 councils in Victoria which have abolished local taxes on buildings out of a State total of 210 councils. The figure of 62 includes 30 in the Melbourne Metropolitan Division and the remaining 32 in the rural Divisions of the State. We show below (and will continue in later issues) the figures for the rural areas because conclusions beyond dispute can be readily drawn from them. With the Melbourne Division even more impressive figures could be shown for most of the suburban cities and shires which have un-taxed buildings. But their significance could be discounted on the grounds that the metropolitan population is expanding rapidly and would have to go somewhere. It could be said that the new settlers' choice of suburbs which have un-taxed buildings was coincidental. If there is growth in rural areas, it must come from developing their own local resources. Most of these rural councils had shown little population growth for years until they un-taxed buildings. In many population had actually been declining with the

EFFECT UPON PRIVATE BUILDING CONSTRUCTION OF ABOLITION OF LOCAL TAXES ON BUILDINGS

Below are the private building permit totals for years immediately before and after change to site-value rating with simultaneous removal of local taxes on buildings — for Victorian councils in provincial centres. (O) The figures in brackets are those which could have been expected had buildings continued to be rated. They apply to the level at change the same percentage increase as recorded by the average of provincial municipalities rating NAV for the succeeding years.

UCV = Unimproved Capital Value (land only).

NAV = Net Annual Value (land plus buildings).

Municipal Year ended 30th Sept.	Rating System	Dwelling Permits		Total Value All Building Permits (£000's)		Municipal Year ended 30th Sept.	Rating System	Dwelling Permits		Total Value All Building Permits (£000's)	
		Nos. O	Value (£000's) O	O	O			Nos. O	Value (£000's) O	O	O
ARARAT CITY						TRARALGON BOROUGH (NOW CITY)					
1961	UCV	32 (22)	149 (77)	213 (101)		1961	UCV	59 (52)	251 (182)	385 (331)	
1960	UCV	40 (25)	149 (87)	219 (114)		1960	UCV	88 (58)	345 (206)	513 (374)	
1959	UCV	34 (30)	128 (105)	181 (137)		1959	UCV	76 (70)	306 (248)	412 (451)	
1958	UCV	28 (26)	93 (93)	143 (121)		1958	UCV	70 (62)	282 (220)	359 (399)	
1957	NAV	25	88	115		1957	NAV	59	208	378	
1956	NAV	19	64	86		1956	NAV	70	239	345	
BENALLA BOROUGH (NOW CITY)						WANGARATTA CITY					
1961	UCV	45 (28)	170 (98)	256 (174)		1961	UCV	89 (71)	352 (206)	619 (367)	
1960	UCV	51 (32)	222 (110)	322 (196)		1960	UCV	83 (80)	285 (232)	514 (414)	
1959	UCV	51 (38)	190 (133)	266 (237)		1959	UCV	117 (97)	406 (280)	542 (500)	
1958	NAV	34	118	210		1958	UCV	141 (86)	505 (248)	836 (443)	
1957	NAV	36	125	165		1957	UCV	127 (81)	430 (235)	682 (419)	
1956	NAV	39	133	229		1956	NAV	81	235	419	
CASTLEMAINE TOWN						WARRNAMBOOL CITY					
1958	UCV	43 (27)	134 (73)	161 (87)		1955	NAV	79	256	394	
1957	UCV	36 (26)	95 (70)	134 (83)		1959	UCV	121 (84)	440 (236)	724 (348)	
1956	UCV	36 (26)	99 (70)	134 (83)		1958	UCV	111 (74)	390 (209)	687 (308)	
1955	UCV	31 (29)	96 (79)	108 (94)		1957	UCV	111 (70)	387 (198)	673 (291)	
1954	NAV	29	79	94		1956	UCV	91 (70)	321 (198)	434 (291)	
1953	NAV	40	80	98		1955	UCV	81 (80)	233 (225)	448 (331)	
MILDURA CITY						WONTHAGGI BOROUGH					
1961	UCV	66 (60)	257 (175)	656 (327)		1954	NAV	80	225	331	
1960	UCV	82 (68)	277 (197)	393 (370)		1953	NAV	62	172	317	
1959	UCV	84 (82)	305 (238)	528 (446)		WONTHAGGI BOROUGH					
1958	UCV	117 (73)	405 (211)	624 (395)		1964	UCV	25 (6)	58 (12)	89 (18)	
1957	UCV	86 (69)	260 (200)	487 (374)		1963	UCV	24 (6)	53 (12)	98 (18)	
1956	NAV	69	200	374		1962	UCV	18 (6)	38 (11)	53 (17)	
1955	NAV	78	210	393		1961	UCV	17 (6)	47 (11)	52 (17)	
MOE BOROUGH (NOW CITY)						KORUMBURRA SHIRE (†)					
1962	UCV	92 (53)	301 (136)	580 (257)		1960	UCV	17 (8)	46 (12)	57 (19)	
1961	UCV	84 (54)	281 (138)	439 (261)		1959	UCV	3 (7)	10 (15)	30 (23)	
1960	UCV	74 (61)	267 (156)	432 (295)		1958	NAV	6	13	20	
1959	UCV	72 (73)	226 (188)	326 (355)		1957	NAV	3	11	28	
1958	NAV	65	166	314		1956	NAV	7	21	30	
1957	NAV	70	182	223		1955	NAV	6	9	11	
1956	NAV	44	110	207		1954	NAV	9	15	15	
SALE CITY						KORUMBURRA SHIRE (†)					
1958	UCV	36 (31)	116 (86)	211 (138)		1967	UCV	27 (11)	274 (116)	616 (212)	
1957	UCV	36 (29)	109 (82)	140 (130)		1966	UCV	32 (10)	315 (102)	593 (163)	
1956	UCV	39 (29)	114 (82)	174 (130)		1965	UCV	14 (9)	108 (98)	392 (156)	
1955	UCV	33 (33)	99 (93)	235 (148)		1964	UCV	17 (9)	148 (93)	188 (137)	
1954	NAV	34	93	148		1963	NAV	7	78	170	
1953	NAV	43	112	180		1962	NAV	13	112	210	
1952	NAV	48	110	238		1961	NAV	10	94	112	
SWAN HILL BOROUGH (NOW CITY)						KORUMBURRA SHIRE (†)					
1961	UCV	49 (31)	177 (80)	354 (108)		1960	NAV	11	88	138	
1960	UCV	38 (36)	128 (90)	203 (122)							
1959	UCV	53 (43)	166 (109)	299 (147)							
1958	UCV	36 (38)	107 (96)	214 (130)							
1957	NAV	36	91	123							
1956	NAV	38	124	175							

Note: (†) With the exception of Korumburra all the values shown above are in £000's. To convert to \$(Aust.) the figures will need to be doubled. The Korumburra values shown are in \$(Aust.).

'drift to the metropolis'. The increased growth rate — compared with that which could have been expected had buildings continued to be taxed — is invariably in evidence. It is rightly credited to the stimulation of ratepayers to make more and better improvements on their properties in the knowledge that they won't be fined for their own effort in doing so as in the past.

Significant Changes

Examination of the twelve cases above shows that in each the building construction level had risen greatly by the fourth year following un-taxing improvements. The value of new dwellings had risen to approximately double the

level that could have been expected had improvements continued to be taxed. This has had repercussive beneficial effects in increased trade and employment prospects through the local community. In most cases the step up commenced in the first year following the change or decreasing tendencies previously evident have been quickly reversed. The same pattern will be seen in the later councils to un-tax buildings.

It is significant that the step-up in values of the dwelling permits after the change is substantially greater than the proportionate increase in the numbers of dwellings. This shows that people are encouraged to build better and more expensive buildings when they know they will not be penalised for doing so.

RESULTS SPEAK FOR THEMSELVES (2)

Expansion of building construction following the un-taxing of improvements

In the March 1975 issue of "Progress" the official figures were given for building construction approvals for the years immediately before and after the adoption of site-value rating accompanied by the abolition of local taxes on buildings by the local councils concerned in the State of Victoria. These covered 12 rural councils of which all but one had made the change between the years 1955 and 1959. They showed a substantial step-up in building construction activity for all types of building approvals as compared with the level that could have been expected had buildings continued to be taxed. For the third year after making the change the magnitude of the increases over those 12 councils averaged 34 per cent in the numbers of new dwellings approved; 63 per cent in their value; and 63 per cent for the total value of building permits of all kinds. This is a most substantial build-up which has improved the standards of living and employment prospects of all sections of those local communities.

Five Councils

In this further article we review the "before" and "after" performance of a further five rural local councils which changed over to rating of the site-value and un-taxing of improvements in the years from 1958 to 1962. These five are the Shires of Wodonga, McIvor and Towong, the City of Maryborough and the Town of Stawell. For these the full range of comparisons for building approvals of all kinds as used for the previous 12 listed are not available. The reason for this is that there was a three year gap during which the official Commonwealth Bureau of Census and Statistics which supplies the figures was changing its recording system to a new computerised form. This is more elaborate and more generally useful but the figures from it are only available for financial years from 1966 onwards. For these five rural councils the comparisons are restricted to the numbers and values of actual dwelling commencements. This is a separate series published by the same official source. The commencement figures are for calendar years which line up approximately with the building approvals in the municipal years ending on 30th September, as used in the first series of comparisons. These further results are given in the accompanying table.

Comparisons

In these comparisons it is seen that home building in Maryborough City was falling off drastically over the three years preceding the change to un-tax improvements. The rate of decline first slowed following that change and then turned to accelerating growth. The value of housing commencements for 1965 was almost double that of the last year of taxed improvements.

For Wodonga Shire the value of housing commencements over the years listed following the change averaged 17 per cent above the average of the three years preceding it. Similarly for Stawell Town the annual average value after the change was 22 per cent up; for McIvor Shire 48 per cent up; and for Towong Shire was 66 per cent above the average of the last three years of taxed improvements.

It is significant that the percentage step-up in the average values of the homes commenced following un-taxing of buildings in each municipality was at least double that of the increase in the number of commencements. The mere fact that prospective home-builders know that they won't attract tax penalties for putting up better quality homes encourages them to do so. The results are clearly reflected

in the statistics. The process works for the common good of all sections of the community. If your council still taxes improvements it is throttling down the natural development of the local potential. The remedy is to use the local option provisions available in the Local Government Act to allow improvements to be un-taxed.

A.R.H.

Housing Commencements "before" and "after" change to site-value local tax basis

Municipality and local tax basis	Number of homes commenced	Values of homes commenced \$000's
WODONGA SHIRE (now City)		
Buildings un-taxed		
1962 UCV	106 (69)	732 (390)
1961 UCV	60 (70)	428 (395)
1960 UCV	47 (79)	338 (446)
1959 UCV	111 (96)	678 (539)
1958 UCV	150 (95)	838 (477)
Buildings taxed		
1957 NAV	99	582
1956 NAV	78	440
1955 NAV	97	516
MARYBOROUGH CITY		
Buildings un-taxed		
1965 UCV	38 (25)	347 (158)
1964 UCV	38 (23)	296 (149)
1963 UCV	22 (23)	186 (149)
1962 UCV	25 (20)	174 (130)
1961 UCV	13 (21)	106 (132)
1960 UCV	25 (23)	172 (149)
Buildings taxed		
1959 NAV	28	180
1958 NAV	49	340
1957 NAV	37	228
STAWELL TOWN		
Buildings un-taxed		
1965 UCV	28 (28)	232 (176)
1964 UCV	29 (26)	230 (166)
1963 UCV	34 (26)	254 (166)
1962 UCV	35 (23)	268 (145)
1961 UCV	33 (23)	228 (147)
1960 UCV	27 (26)	194 (166)
Buildings taxed		
1959 NAV	34	228
1958 NAV	32	204
1957 NAV	25	140
McIVOR SHIRE		
Buildings un-taxed		
1966 UCV	8 (6)	78 (34)
1965 UCV	2 (5)	20 (30)
1964 UCV	6 (4)	48 (29)
1963 UCV	7 (4)	52 (29)
1962 UCV	7 (4)	50 (25)
Buildings taxed		
1961 NAV	5	32
1960 NAV	5	36
1959 NAV	6	30
TOWONG SHIRE (now Tallangatta)		
Buildings un-taxed		
1966 UCV	6 (6)	65 (44)
1965 UCV	4 (6)	53 (40)
1964 UCV	15 (5)	114 (38)
1963 UCV	11 (5)	90 (38)
1962 UCV	5 (5)	44 (33)
Buildings taxed		
1961 NAV	8	50
1960 NAV	4	36
1959 NAV	6	46

Notes:

NAV means net annual value of land-plus-improvements.
UCV means unimproved capital value of land only.

Figures in brackets are those to be expected had local taxes on improvements continued to operate.

RESULTS SPEAK FOR THEMSELVES (3)

In the March and May 1974 issues of "Progress" official figures from the Australian Bureau of Statistics were given for building permits issued or building commencements for Victorian rural councils changing over to the unimproved value rating basis between years 1954 and 1963 inclusive. We now show the "before" and "after" figures for those which have changed over since up to 1970.

Commencing with the year 1966-67 the A.B.S. adopted a computer system which has greatly improved the comprehensive nature of its statistics, which now give a breakdown of the nature of the building permits under sixteen headings. There are two series one issued quarterly and the other annually for the year ended 30th June. The extractions and summaries for the various councils shown below have been made from these sources by the Land Values Research Group.

Again our record is confined to the rural councils although the development shown by the metropolitan councils changing to un-tax buildings and other improvements is on a much larger scale. The rural councils are preferred to prove the argument that site value rating does stimulate owners to develop their holdings or make way for someone else who will. There is just as great effectiveness of site value rating in stimulating improvement in the expanding metropolis. But there is always to hand the answer that it is not proved that the rapid development in metropolitan site value rating areas may be purely coincidental as new homeseekers would have to go somewhere there anyway. This argument of coincidence is hardly convincing even in the metropolitan areas but is clearly inapplicable in the rural centres. In the rural areas any new or accelerated development arises only from the efforts and resources of the local residents themselves. And if there is an upsurge of building following the change it is clear evidence that people have been enabled or encouraged to put their properties to better use in the knowledge that they won't attract rate-penalties for doing it. Or that more land has come onto the market at the same or lesser price to enable them to get suitable sites. In fact that whatever resources the district has have got into better hands willing to use them instead of hogging them.

Of the six rural areas studied here the first four are in the north western part of Victoria in the Northern, Mallee and Wimmera statistical divisions. Cohuna Shire, Kerang Shire and Kerang Borough changed over simultaneously to un-tax improvements in 1967 and Horsham City in 1969. For all of them the actual building permit figures are shown in the table for dwellings and also the total values for all building activity. The difference between the total value and the value of dwelling permits would be the value of all other new buildings and improvements of all kinds.

Beside the actual figures are shown (in brackets) the corresponding figures which could have been expected had buildings continued to be taxed. These are obtained by taking the figures for the last year of taxed buildings and applying to its actual figures a multiplier appropriate to the year in question. The multipliers depend on which pairs of years are compared in an index common to the whole statistical division of which the local unit is part. For example, taking the present Mallee statistical division with

BUILDING CONSTRUCTION PERMITS 'BEFORE' AND 'AFTER' ABOLITION OF LOCAL TAXES ON BUILDINGS

Results for rural councils which have changed to the site-value rating basis since 1967 and operated under the new basis for at least three years. The figures for the years immediately before and after the change are given below.

Municipality and local tax basis Year ended 30th Sept.	Dwelling Permits Issued Nos.	Value \$(000's)	Total value of all building permits \$(000's)
KERANG BOROUGH			
Buildings un-taxed			
1972 UCV	21 (15)	222 (175)	356 (352)
1971 UCV	19 (14)	176 (156)	361 (429)
1970 UCV	17 (15)	155 (169)	448 (417)
1969 UCV	38 (16)	384 (172)	523 (319)
1968 UCV	25 (24)	213 (235)	569 (360)
Buildings taxed			
1967 NAV	23	227	395
KERANG SHIRE			
Buildings un-taxed			
1972 UCV	14 (6)	158 (59)	284 (84)
1971 UCV	11 (6)	107 (52)	157 (102)
1970 UCV	4 (6)	34 (57)	301 (99)
1969 UCV	11 (6)	118 (58)	160 (76)
1968 UCV	6 (9)	59 (79)	76 (86)
Buildings taxed			
1967 NAV	9	76	94
COHUNA SHIRE			
Buildings un-taxed			
1972 UCV	23 (17)	277 (173)	378 (334)
1971 UCV	37 (16)	368 (154)	409 (257)
1970 UCV	29 (17)	293 (167)	502 (395)
1969 UCV	23 (18)	214 (171)	505 (302)
1968 UCV	14 (27)	161 (232)	244 (341)
Buildings taxed			
1967 NAV	26	224	374
HORSHAM CITY (*)			
Buildings un-taxed			
1974 UCV	110(125)	1791(1552)	2731(3538)
1973 UCV	115(103)	1425(1027)	2944(2370)
1972 UCV	50 (38)	551 (351)	1716(1374)
1971 UCV	69 (45)	639 (492)	1065(1280)
1970 UCV	75 (66)	697 (538)	1663(1623)
Buildings taxed			
1969 NAV	88	713	1735
1968 NAV	88	817	2299
1967 NAV	93	835	1320
KILMORE SHIRE (*)			
Buildings un-taxed			
1975 UCV	112 (43)	2258 (1140)	2577 (1527)
1974 UCV	110 (56)	1688 (1158)	1830 (1450)
1973 UCV	79 (43)	1109 (707)	1394 (799)
1972 UCV	45 (32)	611 (459)	925 (509)
1971 UCV	26 (28)	348 (389)	570 (474)
Buildings taxed			
1970 NAV	32	342	592
1969 NAV	19	202	388
1968 NAV	21	207	320

Municipality and local tax basis. Year ended 30th June	Dwelling permits issued Nos.	Value \$ (000's)	Total value of all building permits \$ (000's)
BUNINYONG SHIRE			
Buildings un-taxed			
1975 UCV	108 (38)	2149 (763)	3349 (986)
1974 UCV	114 (60)	1824 (944)	2723 (982)
1973 UCV	90 (48)	1278 (624)	2080 (657)
*1972 UCV	44 (35)	550 (396)	1897 (444)
Buildings taxed			
1971 NAV	30	322	393
1970 NAV	33	353	414
1969 NAV	28	298	415

UCV means Unimproved Capital Value of land.
NAV means Annual Value of land plus buildings.

Note † the bracketed figures are the projection of the growth rates recorded before untaxing buildings and show the estimated figures which could have been expected had buildings continued to be taxed.

Note * means for these places the figures are for the financial year ended 30th June (whereas those not marked are for the municipal year ended 30th September). Thus the asterisked figures are for 9 months of untaxed and the remaining three months of taxed buildings.

Note ⊖ means the indices shown are those for numbers of permits for new dwellings. Similar series are used for the values of new dwellings and for total value of all building permits.

Continued from p.5

the year ended 30th June, 1967 as base = 100.0, the successive indices for later years (in brackets) are: 1968 (105.3), 1969 (71.0), 1970 (66.7), 1971 (63.0), 1972 (66.0), 1973 (102.9). The changes from year to year reflect the variations in economic conditions affecting the whole area. Thus the Mallee peak in 1968 was followed by the rural recession with lowered prices for rural products and the return to pre-recession conditions in 1973. Kerang Borough and Kerang Shire are located in the Mallee.

Note ⊖

From the table it will be seen that Kerang Shire and the Borough of the same name within it, Cohuna Shire and Horsham City have all shown substantially greater building development even under the rural recession conditions.

With Kilmore Shire and Buninyong Shire the development has been most spectacular. For the last mentioned the values of new dwelling approvals after three years experience are double — and for all building activity triple — the expectation had buildings continued to be taxed.

The conclusion is clear that property owners will respond almost immediately by constructing new, more and better quality buildings of all types when they know that they will not attract higher taxes through the rating system for doing so. Those councils which continue to tax improvements are throttling down the scale of development of whatever resources their district possesses and accentuating the "drift to the city". Un-taxing improvements introduces a new life process which will better all sections of the local community.