PROPERTY RATES BILL WILL HAVE ONLASTING SLOWDOWN EFFECT,

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The Property Rates Bill that has recently been passed by Parliament will deny municipalities their right to choose between rating land only or rating improved values. The rating of land only or land at a higher rate than improvements has been traditionally common to most of South Africa. To compel them to collect rates from improved values, traditional to only two cities, namely Cape Town and Port Elizabeth, will be an unreasonable denial of their former free choice. Even Cape Town chose changing to Site Value Rating a few years ago but they were dissuaded by the advanced knowledge of this very bill.

History, both here in RSA and abroad, shows clearly that any tax or rating on property improvements discourages the economic development of a city by reducing the incentive to put land to its full permitted use. This in turn reduces the number of plans passed for building construction and / or improvements, slows down the building trade and all subsidiary industries and reduces employment. This we cannot afford!

In the early stages of the public hearings of the Portfolio Committee, Ms. Jackie Manche of the DPLG, gave a professional overview of the factors that give land its value; all relating to nature, the infrastructure provided by society, the presence of the community and the site's relative position. This value is totally independent of how the owner develops or withholds the site from use. This market related value is a direct measure of the benefits enjoyed from ownership of each site. This value is the only morally legitimate source of local government property rating.

All owners should be encouraged to put land to its full potential and sustainable use for the overall benefit of society. Development of, and on, land in the form of buildings, structures, communication equipments, agriculture and forestry, to name but a few, is entirely the product of private enterprise, investment and labour. This development should not be discouraged by rating improvements.

As Chairman of the Portfolio Committee Mr. Yunus Carrim gave a magnificent summary of the large volume of factors in favour of Site Value Rating and factual case studies that prove that rating land only results in nearly twice the percentage growth compared to that which flows from improved value rating, also known as flat rating or single rate system (USA). Even a small increase in the rates on land with a corresponding decrease on buildings results in increased building activity and employment; as has been shown in more than a hundred cases in USA and else-where.

The Department of Provincial and Local Government have consistently shown an irrational and emotive bias towards rating improvements and a total disregard of the vast amount of evidence against it.

The Draft Bill presented to the Portfolio Committee at the beginning of 2003 had already been based on the assumption that they would not tolerate Site Value Rating. Even definitions that appeared in earlier drafts had been eliminated. The Portfolio Committee started with a disadvantage that resulted in many hours of unnecessary and fruitless discussion.

The DPLG have not provided any factual evidence to justify their opinion. Throughout the public hearings the DPLG have attempted to discredit all factual case studies as being irrelevant to South Africa today. Are we exempt from natural laws? They also claimed that rating improved values broadens the tax base but failed to clarify which improvements are not attached to land!?

A simple calculation based on the latest Cape Town Valuation Roll shows that approximately R42 million per annum will be left as a free gift (continued on p. 7) to land speculators withholding undeveloped land from use and waiting for increased market value. This amount would be captured by Site Value Rating and could be used to lighten the burden of the poor. This loss applies to Cape Town alone. What is the loss for RSA as a whole?

Even the classical economists such as Adam Smith, David Ricardo and Henry George favoured the taxation of land and advised against taxing the products of labour and capital such as improvements.

Most of the objections raised at the public hearings on this Bill were directed against the rating of improvements. The valuing of improvements is often very complicated compared to the simplicity of valuing land only. The latter lends itself to computer modelling and permits frequent updating at little cost, using recent sales and inspection of those sites only. Rating improvements on the other hand is complicated, slow and requires frequent on-site inspection. Errors in valuations result in huge public out-cry. However, based on opinion only, the DPLG consistently claimed that it is easier to value improvements.

The rating of land only by local government would also pave the way for a reliable national land value register that would have many uses.

There is currently a strong move overseas to collecting a portion of the increased land values arising from improved roads, transport or mass transport systems in order to finance these improvements. There are a number of (continued on page 15) case histories where the increased land values have been three to four times the total public investment in those systems. Site Value Rating would have provided a significant step towards such financing of public infrastructure. Tolling of roads is entirely unnecessary.

In summary, a strong appeal was made to the Portfolio Committee not to close the door on Site Value Rating. Improved Value Rating will undoubtedly slow down the local economy, the building trade and employment. However, if the municipalities were given the right to choose they would soon show by results which system is the better.

The Rating Bill will have a long lasting slowdown effect particularly on undeveloped rural areas; exactly the reverse of what is required. HISTORY WILL BE THE JUDGE.

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