

Land Value Taxation: An International Overview

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Executive summary

- The three principle bases for the property tax tend to be capital improved value, annual rental value and land value. There are some instances where a country or jurisdiction may apply more than one basis at the same time. For example, in Northern Ireland residential property is valued on its capital improved value whilst commercial property on annual rental value. There are a number of jurisdictions in the United States that value land and buildings separately for the purposes of applying different tax rates (several jurisdictions in Pennsylvania¹).
- From an international perspective, given the choice of property tax basis, land value tends to be the least used. It is a conceptually sound system but with limited international application.
- There is a quite noticeable trend for countries and jurisdictions (where they have a choice of tax basis) to move away from land value. Very good examples of this are to be found in Australia, New Zealand and South Africa.
- A system of land value taxation should ideally be based upon the concept of highest and best use. This creates difficulties when considering the value of historic and heritage property located on extremely valuable sites. A system of 'value' relief would have to be considered in order to protect such buildings. Equally, there are other instances where highest and best use should not apply, for example, agricultural land used for farming but under developmental pressures.
- Under a land value system all land is normally included in the tax base including agricultural land. However, special consideration has to be given to land devoted to agriculture; this is normally applied through the valuation process where values are based on existing use rather than highest and best use.

¹ Hartzok, A. (1997), Pennsylvania's success with local property tax reform: the split rate tax, *American Journal of Economics and Sociology* 56(2), 207-214.

- The planning/land use zoning system would need to give clarity and certainty as to the actual permitted use for all land. The current planning system falls considerably short of being able to achieve this due in a large part to the lack of current development plans.
- Overall, introducing a system of land value taxation to replace the current domestic and non-domestic systems would be difficult and not in line with international trends.

Introduction

The purpose of this brief research report is to provide some empirical evidence as to the international use of land value taxation as a system for the raising of revenue for local government services. Land value taxation is not a new concept, it is conceptually sound but has from an international perspective limited application. The application of land value taxation in its pure form is used only in a few countries for such purposes. These countries include Australia, Fiji, Jamaica, Kenya, New Zealand and South Africa. In many respects these countries have several factors in common including relatively large land masses, but possibly and more importantly, at the time of the introduction of their system of land value taxation they were largely undeveloped countries. As Holland (1969) put it, developing countries perhaps more than others experience considerable speculative holding of land which causes significant piecemeal ad hoc development.

There are a number of other smaller countries that currently use some form of land value taxes either as a state tax or as a local tax. Belize² uses land value for rural property only i.e. property outside of the towns and cities. Taiwan³ utilises the Land Value Increment Tax as a means to curb land speculation. It is somewhat similar to the capital gains tax with the trigger for the tax being a sale or other disposal. The property tax in Barbados⁴ originally was based on the annual rental value however, following the publication of a research report by the United Nations the system was changed to one based on land values (1972). The basis was then extended to include improvements in 1975.

In Korea⁵ the Aggregate Land Tax (ALT) could be described as a form of wealth tax in terms of land asset holdings. It is levied annually on the individual landholding value across the whole country. The ALT, is not specifically a local tax, but centrally administered with the revenue being transferred to local budgets.

² Land Tax Act, chapter 58, 2000; Towns Property Tax Act, chapter 65, 2000

³ Shen, S-K. (1966), Land Taxation as related to the Land Reform Program in Taiwan in Land Taxation, Land Tenure and Land Reform in Developing Countries, A.M. Woodruff, J.R. Brown and S. Lim (eds), University of Hartford

⁴ Land Valuation Act, chapter 229A, 1985

⁵ Younghoon, R. (2002), Introduction to Property Tax System, Korea Institute of Public Finance

In terms of international usage land value taxation is not as extensively used, as for example, annual rental value or capital improved value. In fact, when we look specifically at recent developments in Australia, New Zealand and South Africa we see that the trend is to move away from land value based systems to the more popular capital improved value. In Australia and New Zealand where municipalities have a choice as to which rating basis to use the trend has been for municipalities to change to capital improved values (for further details see Annex 1). The most dramatic change has recently occurred in South Africa where all municipalities now must adopt capital improved value as the basis.

The Lyons Inquiry into Local Government (2007) as a matter of course briefly examined land taxation. It noted that several proposals (mainly historic) for such a tax in Britain have been put forward but will have little success⁶. On the matter, Lyons did suggest that in general, taxes should be as broad based (land and improvements) as possible to reduce distortions and tax rates. On the matter of administration NERA (2005) suggested that costs would be relatively high given that all land would have to be surveyed and valued, a task made all the more difficult as there is currently no national register of land ownership.

Advantages of land value taxation

- Some arguments for land value taxation can be made on the grounds of equity, efficiency and environmental protection. The equity argument asserts that because the value of land is, for the large part, a result of society efforts rather than efforts on the part of the owner, society should reap the benefit of increased land values through taxing this enhanced value (Lichfield and Connellan, 1997).
- Land value taxes are efficient in that they remove a market disincentive, which discourages people from building or making improvements to their property because of the fear of increased taxes. Under a land value system improvements are essentially exempt.

⁶ 1909 and 1931, see Connellan, O. (2004), Land Value Taxation in Britain: Experience and Opportunities.

- From an environmental perspective land value taxation encourages compact city centre development, which would reduce urban/suburban sprawl. The concept is one of efficiency of use and developing greater intensity of use in urban areas.
- Administrative simplicity is an important advantage of land taxation. Difficulties in factoring out land values from sparse transactions is to a certain extent offset by other administrative advantages including not having to maintain an inventory of improvements.
- By excluding improvements the assessment/valuation process is less constrained and demanding, as it requires fewer property inspections.
- Land values are easily determined as the valuation process requires less variables to be reflected.
- Land value is in accord with the benefit principle of taxation. The value of land is the market value of the location, it is essentially what someone would be prepared to pay for the benefits which are available at that site in terms of accessibility, amenities etc.

There are however a number of distinct disadvantages of land value taxation

- It provides the taxing authority with a restricted tax base, excluding a substantial degree of wealth, especially in well-developed areas and can only produce sufficient revenue at high tax rates. Buildings contain an appreciable degree of value, particularly in central business districts, which under land value taxation escapes taxation. The exclusion of improvements also means that the tax base has considerably less flexibility than under improved value systems (Bahl, 1998; McCluskey and Williams, 1999).
- Whilst not impossible it is difficult to separate the value of the land from the value of the improved property, problems do arise when such derived values have to be defended before a valuation tribunal. The use of extrapolation methods to blanket cover an area or region based upon sparse data is divorcing an ad valorem tax from the market.
- Valuing land in a built-up environment with no or few transactions, necessitating the extraction of land values from improved value sales makes the process a more subjective and cumbersome exercise (Bahl, 1998; McCluskey and Williams,

1999).

- Explaining the system to ratepayers who are generally intuitively aware of the improved values of their properties.
- A system of land value does not require the collection of data on improvements. Introducing such a system would have significant problems if at some time in the future a change to improved value was contemplated as the cost of data collection would be extremely expensive.
- It does not reflect ability to pay as well as a capital improved value system (Marten, 1999; Dowes and Hargreaves, 1999).
- It penalises the holding of accommodation land when a change of use is not yet economic (Risden, 1979).
- It would tend to bring about development in peripheral areas and increase pressure on urban fringe land.
- It can create undesirable development particularly where the planning system is not operating efficiently.

Incidence of the land tax

Economic theory would tend to show that under the assumption of perfect markets, a tax on any good with perfectly inelastic supply and no elasticity of demand will be borne entirely by the supplier of the good. The tax cannot be shifted to its user because any increase in the price would lead to an excess supply of the good. Therefore, a tax on land has to be paid in full by the owner of the land.

Valuation assumptions

Highest and Best use

It is a general assumption of valuation under land value systems that the concept of highest and best use is adopted. Many of the countries that use land value make specific reference in their legislation to empower this concept, for example in the state of Victoria, the Valuation of Land Act 1960 (s.5A) states that in determining the value of land account shall be taken of the existing use and the highest and best use which the land might reasonably be expected to be put. In Jamaica, legislation permits the taking into account of any other purpose for which the land could be used (Land Valuation Act 1957).

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

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

Highest and best use as defined by Boyce and Kinnard (1984) is that reasonable and probable use that supports the highest present value, as defined, as of the effective date of the appraisal. The highest and best use in context of market value is the most probable use. These definitions imply that the determination of highest and best use results from the valuer’s judgement and analytical skill, i.e. that the use determined from analysis represents an opinion, not a fact to be found. Highest and best use must be reasonable, probable, and proximate (likely to occur soon, if not immediately). It is not speculative or conjectural. It may or may not be the present use of either the site or the improved property.

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

instances, highest and best use may anticipate the market, provided the conclusion is reasonable, probable, and proximate.

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

The current or present use of the property may differ from highest and best use of the site. The existing use will continue, however, unless and until land value in its highest and best use exceeds the total value of the property in its existing use. Therefore, the present use of an improved property is presumed to be its highest and best use unless it can be demonstrated that change is imminent through the impact of market demand or legal (land use control) forces⁷.

The highest and best use of a parcel of land is normally a question of fact and usually presents little difficulty in its determination. In most rural areas, residential and industrial locations the highest use of the land is a relatively straightforward issue. However, in transitional areas where the predominant land use is slowly changing e.g. a residential suburb seeing an influx of commercial activities, or part of the commercial inner city witnessing a decline in fortunes. In these cases some certainty of land use needs to be given within the system so as to remove issues surrounding values and potential litigation.

⁷ The principle has received judicial approval in a number of Australian cases including *Spicer v Valuer-General* [1963] 10 LGRA 319 where the court said;

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

Exceptions to highest and best use

Related to the identification of the highest and best use of a parcel is the need to protect certain existing uses that would not be considered as the highest and best use. This is particularly important where the values pertaining to existing use and highest and best use are significantly different. No system of property taxation including land value is universally applicable in all situations, resulting in measures of relief to be instituted to protect certain classes of property and occupiers. As an example, in older established residential areas caught up in changing use to commercial/offices, it may be found that the taxes on residential property are excessive if assessed on the basis of these higher and potentially more 'profitable' uses. To preserve the original land use from an early demise, various schemes of relief are utilised, some relating to the valuation process as such (e.g. differentials of discounting the actual value to a lower level), and others operating outside the realm of assessment (e.g. property categorisation or zoning coupled with differential rates).

A number of these exceptions will now be considered.

Heritage buildings

Buildings of historical or architectural importance are often valued on the basis that the current use is the only permitted use. This is notwithstanding that historic buildings, particular those situated in CBD areas, are often used for uses different to which they were originally designed and built. But it does protect them from the highest and best use concept which could incorporate a density assumption which would in normal situations require the demolition of the building and the redevelopment of the site.⁸

Relief through special valuations

In this case property tax relief is available to the owners or occupiers of land where the use of the land is different from that permitted by its zoning, and where the value based on existing use is higher or lower in value than that based on the zoning. The use

⁸ (see Victoria's Valuation of Land Act 1960).

of special values can then be considered. Examples of this type would tend to relate to industrial or commercial land located in rural or residential areas or residential land located in predominantly commercial or industrial areas. The special values reflect the value of the property in its existing use as opposed to any higher or more intensive use. The following are typical categories of property to which special values could be applied:

- SVs of industrial or commercial land in residential or rural areas;
- SVs of residential land located in commercial or industrial areas;
- SVs of single or double unit dwellings where values are influenced by demand for multi-unit housing;
- SVs for existing use properties;
- SVs of land subject to special preservation/historic conditions.

Relief through tax postponement

One other approach to protect certain land uses is to apply tax postponement. Under this approach there is the power to postpone the property tax on farmland of which the value is in some way attributable to the potential use to which the land may be put for residential, commercial, industrial or other non-farming use. The postponed value of any land excludes any potential value at the date of valuation so as to preserve uniformity and equitable relativity with comparable parcels of farmland the valuations of which do not contain any potential value. Where farmland value has a value higher than existing use value then two valuations are required, one for the existing use and the other for the highest and best use. The difference between the tax assessed on the lower and higher values is postponed.

Agricultural land

In those countries that apply land value taxation agricultural land normally forms part of the tax base. Whilst very few countries completely exempt agricultural land it is usually given a certain degree of preferential treatment. In most cases land that is de facto agricultural is valued on an existing use basis as opposed to highest and best use.

In New Zealand and Australia farmland is taxed and rated for the municipal property tax. However, in both countries recognition is made of the potential differences that can exist between current use value and highest and best use value where other competing uses to farmland may apply⁹.

Planning Issues

For a land value system to work effectively it is important that the planning/land use zoning system is also efficient (McGill and Plimmer, 2004). As sites have to be valued at their highest and best use it is essential that there is clarity and certainty with the land use zoning. Under the current planning system there is considerable degree of uncertainty in terms of the likely allowable uses of land. This is to an extent due to the lack of a comprehensive and up to date set of development plans covering all areas. This has occurred for a variety of reasons including resource issues and the protracted nature of the Plan introduction and appeal procedure. It is also to an extent due to the fact that such plans and associated planning policies are subject to interpretation and legal challenge. In any case the plans would tend to be quite general in terms of issues such as density of development allowable or quantity of affordable housing required and may in fact zone some land as white land; i.e. difficult sites where any economic use would be considered. Developments are subject to approval in line with the Development Plan and other planning policies and in many cases this may have a considerable effect on the land value.

As Lichfield and Connellan (1995) commented, ‘the current development/planning process, and the recent attempts at recoupment of development value in Britain bring out the potential conflict that arises when land/site taxation is administered alongside a planning system in which development rights are not derived from the plan itself but rather from the planning permit administered under the system. Therefore, given the flexibility and discretion inherent in the planning system there must be uncertainty in the future land use/land value of particular parcels.

⁹ Victoria, Valuation of Land Act 1960
New Zealand, Rating Valuations Act 1998

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States.

Annex 1:

Examples of international land value tax systems

Australia

Property taxes in Australia principally comprise the state land tax and municipal rates. The former provides revenue for the state with no direct reimbursement to local government whereas the latter is the primary source of revenue to local government. The land tax was introduced at the national level in 1910 (Taeuber, 1966) and remains a state tax in all states including the Capital Territory but with the exception of the Northern Territory. Municipal rates are levied on a variety of tax bases the main ones being:

- *unimproved land value*: the amount which the fee simple of the land might be expected to realize if sold, assuming any improvements had not been made.
- *land value or site value*: similar to unimproved value except that improvements such as clearing, excavating, or grading are not disregarded in determining value.
- *improved value of land and buildings*: is the market value which the property might be expected to realize if sold.
- *rental value of land and buildings*: gross or net annual rental value that the land and buildings might realize if leased.

Table 1: Basis of property tax in Australian states and territories

State/territory	State land Tax	Municipal rates	
NSW	Land Value	Land Value	
VIC	Land Value	CIV/Land Value/ARV	72 councils use CIV; 1 LV and 6ARV
QLD	Unimproved value	Unimproved value	
SA	Land Value	CIV/LV and ARV	50 councils use CIV; 13 LV; 1 ARV; and 4

			combination of CIV and LV
WA	Land Value	ARV and LV	ARV for urban property and LV for rural property
TAS	Land Value	ARV	
ACT	Land Value	LV	
NT	None	LV	

As can be seen from Table 1 land value is the only basis used to determine assessed land values for the state land tax. For municipal rates the picture is more diverse however, the pattern would tend to suggest that each of the main basis are widely used. However, if one examines the trends in those states that allow municipalities the choice of which basis to use then we see an interesting picture. In South Australia and Victoria where municipalities have the choice, the trend is towards capital improved value with a move away from land value.

Fiji

Before independence Fiji was under British rule (1874 - 1970) and shared in some significant aspects of a common colonial heritage with its neighbouring countries Australia and New Zealand. Thus the basis for assessing local government rates in Fiji on the unimproved capital value System (UCV) was inherited from these two countries. Municipalities in Fiji are self-financing authorities with a significant part of their operations funded by revenue from the land value property tax.

In the case of Fiji, with the exception of one preliminary government review (Narayan, 1999), no empirical research has been undertaken on the rating system. Research by Hassan and Boydell (2003) indicates some significant problems with the land value system in Fiji. In particular, there are problems with equity and the proffered solution is for the government to consider changing the system to one based on capital improved value. However, to date no governmental changes have been made to the system.

Jamaica

Land Value taxation was first introduced in Jamaica in 1957 following a number of research reports into the most appropriate form of property taxation (Hicks and Hicks, 1954; Murray, 1956). From a study of the proceedings of the House of Representative as recorded in the Jamaica Hansard (Session 1956 - 57 No.3), the following was the major objective in introducing the Land Valuation Bill (Lyons and McCluskey, 1999). It was considered desirable to introduce a tax base which:

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

Since its introduction in 1957 the land value system has been generally been working well. Two recent research reports indicated a number of changes to the tax structure but principally, that the basis of the tax should remain as land value (McCluskey, 2002; Sjoquist, 2004).

New Zealand

At present in New Zealand local authorities have the choice of three alternative systems on which the real property tax or rates may be levied. These systems are firstly, the total value of land, buildings and other improvements (capital value); secondly, the site value only (unimproved value); and thirdly, the annual value. During the first decade of British colonization in the 1840s, annual value was the most extensively used basis for rating, which was in effect an adoption of the 'English system' of rates. The unimproved value system interestingly was rejected by central government in 1893, however, its popularity had been on the increase since the depression of the 1880s. After 1896, with the advent of three recognised systems of rating available to local authorities, there was a steady move away from annual value and capital value rating to unimproved value rating.

The proportion of territorial local authorities using unimproved values increased from 64.2 per cent in 1956 to 76.1 per cent in 1966, while the proportion rating on capital and annual value, declined from 29.5 per cent to 19.3 per cent and 6.3 per cent to 4.6 per cent respectively. Clearly, over the last fifty years land value based rating has been the dominant system. However, since 1985 there has been a noticeable swing back towards the use of capital value.

Territorial local authorities (TLAs) in New Zealand have always had the legislative right to choose the basis upon which to levy property taxes. In relation to the levying of general rates, of the 74 TLAs, twenty three adopt capital value, fifty use land value with only one employing annual value (Auckland City) (McCluskey et al, 2002). In this regard, New Zealand is to some extent unique in granting each entity of local government the power to choose its own rating system. Most other countries generally prescribe a national/state uniform system of property taxation, with local government having no authority to opt for a different approach (Bird and Slack, 2004; McCluskey, 1999). Given the ability of TLAs to choose their rating system there has been over time a gradual swing away from land value towards capital value (McCluskey and Franzsen, 2004). The precise reasons for this movement are as yet unclear but could well be linked to a number of interrelated aspects such as better reflection of ability to pay, volatility of the property market, assessment difficulties and rating incidence (McCluskey and Franzsen, 2004).

Clearly over the last fifty years land value based rating has been the dominant system however, since 1985 there has been a noticeable swing back towards the use of capital value. This tends to be more evident within the larger urban areas. Since 1989 a number of territorial authorities (TAs) have switched to capital value rating, they include Dunedin (1989), Tasman (1991), Banks Peninsula (1992), South Waikato (1993), Invercargill (1994), South Taranaki (1994), Otorohanga (1996), Lower Hutt (1997) and Franklin (1999).

Early attempts to establish a uniform basis of rating in New Zealand were negated as early as 1896 when the freedom to choose between annual value, capital value and unimproved value was clearly established. The Officials Co-ordinating Committee Report (1988) drew attention to the various ways that the property valuation focus had

been shifted, by bringing in differentials and uniform annual charges. The report suggested the introduction of capital value rating would reduce some of the pressures giving rise to the use of differential rating. Mainly for reasons of local autonomy there has been a perception that a choice of systems was needed. It is claimed either capital value rating or land value rating may be more appropriate for an individual authority because of the character of the district. It could be argued that land value rating is better for rural areas and capital value rating is more appropriate for cities. The report concluded that there were good reasons for having one form of rating system nationwide, but if government had no clear preference, then there should be access to both land and capital value rating systems. The 1988 Committee indicated the following:

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

As the capital value system is better understood it is likely that there would be less time spent in advising ratepayers about the system than is the case with those districts where land value rating is used. Land value as a system is not well understood by ratepayers particularly with respect to the development improvements and structural improvements. While the land value rating system has been a valued system in the past, its benefits are increasingly being questioned. Even if one accepts that its strength is the encouragement that it brings to develop property it is questionable whether New Zealand is in a developing mode. In addition, land use planning through the rating system is not the most efficient mechanism to attain proper land use controls.

South Africa

Historically land-related taxation in South Africa can be traced as far back as 1677, when the Dutch East India Company introduced an agricultural tithe on small-scale farmers who had been settling down in the fledging colony located at the Cape of Good Hope. The Dutch introduced recognition fees on farms in 1714 and the British (after annexing the colony in 1806) introduced quitrent, hut taxes, various forms of land taxes and eventually property rates in the Cape colony (and their various other colonies in southern Africa). Introduced in the Cape Colony in terms of the Municipal Ordinance in 1836, rates on property have been a source of revenue for primarily urban municipalities in South Africa ever since.

Rates on property, as an annual tax payable by the owner on the market value of property situated within municipal boundaries, is levied in terms of one of the following three systems:

- a site rating system (i.e. taxing only the land, excluding improvements);
- a flat rating system (i.e. taxing the improved value of the land); or
- a composite rating system (i.e. taxing both the land and the improvements, but at separate tax rates)

At the time when the reform of the local government sphere commenced in earnest in 1994, the use of the three rating system was rather evenly spread amongst municipalities throughout the country, i.e. a third each. The distribution within former provinces however indicate a general preference for one or at most two out of the three systems, as indicated in Table 2.

Table 2: Rating systems used by pre-1994 municipalities in 1993-1994

Province	Site Rating		Flat Rating		Composite Rating		Total
	No.	%	No.	%	No.	%	

Cape	4	2.4	89	54.0	72	43.6	165
Natal	34	50.7	1	1.5	32	47.8	67
Orange Free State	10	19.6	8	15.7	33	64.7	51
Transvaal	78	88.6	2	2.3	8	9.1	88
Total/ Percentage	126	34.0	100	27.0	145	39.1	371

Source: *Bell and Bowman, 2002*

The White Paper, published in March 1998, also proposed material changes to the manner in which local government is to be financed, citing certain features of the property rates dispensation that required reform. And indeed the White Paper (i.e. government policy advisors) suggested a simpler and uniform valuation system with regards to tax base is one of the key policy objectives of a future rating dispensation. It is, however, also stated that a 'key decision that needs to be taken is whether there should be uniform national system, or whether there should continue to be local choice in this matter'. Each of the Provinces were able to determine their own property tax basis, but with the passing of the Local Government Municipal Property Rates Act (2004) the national government has prescribed that one uniform system for the whole country should be applied i.e. capital improved value (McCluskey and Franzsen, 2004; Franzsen and McCluskey, 2000).

Kenya

The introduction of property taxation, commonly referred to as rating in Kenya is a relatively recent phenomenon. It was not until the beginning of the last century that it was introduced by the British colonial rule when local governments were created. In an attempt to enable the created local authorities to meet the challenges, the British colonial administration tried any policy on land management that had worked elsewhere. According to Hicks (1961), the campaign for taxing land spread from

South Africa into Rhodesia and later to the three British East African territories of Kenya, Uganda and Tanganyika (Tanzania).

Land taxation was introduced in Kenya in 1900, when the first system was applied in Mombasa on an annual rental value basis under street cleaning and regulations. The following year, the same was applied in Nairobi. In 1923, annual value rating was, however, found wanting as only a few properties had been developed. The desire was thus to widen the base of the tax and it was not until 1928 that the recommendations of the District Committee to apply unimproved site value rating was introduced. In Nairobi, however, this had been introduced in 1920 in conformity with the systems then existing in Australia, New Zealand and Western Canada. This was a departure from the English system that was found unsuitable in new growing townships. The introduction of site value was to a great extent influenced by Henry George's ideas of a single land tax system.

The Valuation for Rating Act provides for three systems of rating namely: area rating, unimproved site value rating and improvement rating. Unimproved site value rating and improvement rating apply to urban areas whereas area rating was to be applied to agricultural land. Urban authorities are allowed by law to use either unimproved site rating or improvement rating or both methods. However, unimproved site value rating has proved to be more attractive to local authorities because of its amenability to mass appraisal and simplicity in comparison to other methods. In applying site value rating, rates are based on the market value of the unimproved bare land, and where the land is developed, the improvements are ignored.

Improvement rating, however, was only tried in Mombasa but was abandoned after a short period of time due to defects in the law (Aritho-Gitonga, 1980). The system never succeeded due to its influence on development and also to the fact that by then, many Kenyan towns had low levels of development, for instance, buildings which could not be valued with any certainty as they were constructed of mud, tin and paper, and the local authority by laws regarded such developments as illegal.

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