

V.—*On the Valuation of Property for Taxation.* By Murrough O'Brien, Esq.

[Read, 18th February, 1879.]

In a former paper on valuation I mentioned the fact that in both England and Ireland large country houses are generally assessed at very low rates. This low rating, however, is not confined to country houses; there are many other kinds of property of which the annual value cannot be ascertained by comparing them with similar properties, whose letting value is known. In fact the definition of rateable value as "the rent which may reasonably be expected," cannot be truthfully applied to those hereditaments that are not usually let from year to year. In some such cases in England it is the practice to make an estimate of what might be given by an hypothetical tenant by an examination of the elements that such a tenant would take into consideration—that is to say, by assuming that the tenant will pay a sum equal to the rent of the land, and fair interest on the capital value of the buildings. This principle has been sanctioned by judicial decisions in the case of large factories, mines, docks, etc.; but it is at best a strained and artificial interpretation of the statutable definition. It is unsatisfactory, and the tendency to undervalue large buildings and large works is very much increased by the want of a proper definition of their value. This has been felt as a serious evil, causing inequality of taxation to such an extent that for this kind of property, in a Rating Bill introduced by Mr. Goschen, another definition was proposed, and this definition I suggest as being a needful one to introduce into the Irish Valuation system.

In this speech on the Rating and House Tax Bill, in April, 1871, Mr. Goschen said:—

"With regard to another kind of property, where the system of valuation is very imperfect, it is proposed to make a change. There are many buildings and large houses in country districts which cannot be valued on a calculation of what they would be let at from year to year, and which in consequence escape paying on a fair rateable value. It causes a considerable amount of not unnatural irritation among the farmers to see a large neighbouring property escape at a low rating for this reason, while their own smaller farms are, as they complain, highly rated. The Government propose, where it is held to be impossible to get the letting value, to take the selling value, minus a certain per-centage, as is done in the case of the Scotch railways, and to take 4 per cent. on their selling value as the estimated rental.

Accordingly, clause 6 of the Bill provided—

"That where any building cannot be fairly valued according to the annual rent which a tenant might reasonably be expected to pay for it, it shall be valued in the following manner: The gross value of any such building shall be a sum equal to 4 per cent. on the capital sum which a purchaser might justly be expected to give for such a building in its actual state and existing mode of occupation."

On this provision, Mr. T. F. Hedley, of Sunderland, a valuer of great experience, remarks* :—

* *Observations on Right Hon. C. P. Goschen's Bill*, p. 107.

"What might be a fair per-centage as the measure of value of mansion-houses producing no profit, and making few if any paupers, would be a most inadequate remuneration and not fair interest as the measure of assessable value of works producing large profits and making much pauperism. In my opinion the rates of per-centage should be varied according to the description of properties assessed."

The approval of scientific economists, as well as of a statesman like Mr. Goschen, and practical man like Mr. Hedley, may be quoted in support of this principle of valuation. Mr. McCulloch in his work on *Taxation and Funding*, writes:—

"It is said that not a few middle-class inns and hotels pay a larger amount of house duty than is paid by the most splendid baronial residences. But the unfairness in these cases is apparent rather than real, and grows out of the mode in which the tax is assessed. The rent which a house would bring, and not the sum which it has cost, is very properly taken as the basis of the assessment. Everybody knows that the residences referred to would not let on any terms, and that none except their owners would occupy them, unless tempted by the offer of a considerable bonus. It may be right, however, that these costly edifices should be taxed; and that in assessing the duty on the more expensive class of villas and palatial residences, whether in town or country, regard should be had to their cost as well as to their market value. If rich or vain men choose to expend immense sums in building houses too large for other people to occupy, that appears to be a very good reason why they should, but none why they should not, pay taxes upon them. And so long as they are occupied by their owners they would be fairly taxed, and the inequality complained of obviated, by making the estimated outlay upon them a principal element in determining the amount of duty with which they should be charged."

J. S. Mill advocated the same principle: on the subject of direct taxes, he says* :—

"The public were justly scandalized on learning that residences like Chatsworth or Belvoir were only rated on an imaginary rent of £200 a year, under the pretext that owing to the great expense of keeping them up they could not be let for more. Probably, indeed, they could not be let even for that, and, if the argument were a fair one, they ought not to have been taxed at all. When the occupier is the owner . . . a valuation should be made of the house, not at what it would sell for, but at what would be the cost of rebuilding it, and this valuation might be periodically corrected by an allowance for what it had lost in value by time, or gained by repairs and improvement. The amount of the amended valuation would form a principal sum, the interest of which, at the current price of the public funds, would form the annual value at which the building should be assessed to the tax."

On this principle not buildings only, but railways, docks, canals, mines, waterworks, etc., might be fairly assessed. At present the system on which railways are rated seems highly unjust. An hypothetical tenancy is assumed, and in order to arrive at the sum which such a tenant would give as rent for the railway, the gross receipts are taken as a basis, deductions are made from this, and the rateable value is thus arrived at. The gross receipts of a railway company may include profits from many other sources besides the railway itself. Many companies are common carriers by road, builders of engines, carriages, etc., makers of rails, licensed hotel-keepers, owners of steamships. The rating, being based on the profits of their entire

* *Principles of Political Economy*, Book v. c. 3, s. 6.

business, is not unnaturally looked upon as a tax on the company's stock-in-trade and their profits as carriers. The numerous appeals as to the valuation of railways in England show how unfair this system is felt to be, and the great difficulty there is in obtaining a just rateable value under it.

Under the method suggested, instead of trying to deduce a rental from the basis of gross receipts, the capital value of the railway property would be taken; from this would be deducted the value of rolling stock, furniture, stores, a year's wages, a year's repairs and maintenance, in fact the whole value of the stock-in-trade and floating capital of the company; the remainder would be the capital value of the real rateable property of the company, and a percentage on this would be the rateable value.

The complaints of the English companies appear to be founded on justice. The legal expenses incurred in these rating cases have been very heavy, and as there are still many unsettled points and conflicting decisions, more litigation is to be expected. The arguments and evidence in these cases are frequently with respect to what would happen, in the highly improbable, if not impossible, event of a yearly tenant renting a whole railway, or perhaps a few miles of one in some particular parish. In fact the court is engaged in the consideration of improbable events, which are so vague as to be beyond all exact estimation.

The unfair results of valuation of large buildings under the present system will appear very plainly from an examination of the rateable value of some of the large concerns in Dublin. For instance, Trinity College is valued for rating at about £6,000 a year. It stands on over thirty acres in the heart of the city, with a frontage of nearly 3,000 feet to the best business streets. There are about 350 sets of chambers, and in addition, chapel, dining and lecture halls, museums, library, gymnasium, and other buildings, all of great value. Practically this property, belonging to a wealthy corporation with large landed estates, is almost exempted from taxation, for if valued according to the principle proposed in Mr. Goschen's Bill its rateable value would probably be five or six times at least what it is at present.

Another example of the tendency under the present system to under-rate large and public buildings is the Commercial Buildings, Dame-street. Its rateable value is £550. According to the report of the Commercial Buildings Company their year's rental, to 31st December, 1877, was £1,695, and, after deducting expenditure on repairs, management, insurance, taxes, and gas, the net receipts were £1,080.

Many similar cases might be found. On the other hand, there is not at all the same tendency to under-value small buildings, and their rateable value in Dublin will be found to correspond more closely with their capital value than in the case of such buildings as I have mentioned, for the following reasons:—The real rent paid is easily ascertained, and therefore is naturally referred to in making the valuations; but the cost of repairs and maintenance, the losses arising from such houses being vacant, or from defaulting tenants, are not so easily estimated, while in the case of public buildings, owing to their

substantial structure, the cost of maintenance is small, and there are no losses from vacancy and defaulters. The large amount of uncollected rates in Dublin must, I think, be in some degree attributed to these inequalities of rating; and on the principle that necessities of life should as far as possible be exempted from taxation, it may fairly be urged that the present high rates on small dwelling houses should be accompanied by a just valuation and rating of other properties such as I have referred to.

Besides institutions which are indirectly exempted by being undervalued, there is in Ireland a very large amount of property which is entirely exempted from taxation. Rates are now voluntarily paid on Government property, in deference to the strongly felt opinion that not to do so was unjust. The valuation, however, of such properties as Dublin Castle, barracks, and fortifications is, like that of those institutions I have mentioned above, liable to be unduly low.

Places of worship, buildings used for purposes of charity, literature, science, and art, are all exempt. In this there is a manifest injustice:—(1st) A large area is withdrawn from taxation altogether. (2nd) A compulsory contribution is levied in support of these institutions from all other taxpayers within the area of local taxation where they are situated.

In so far as such institutions are worthy of aid from the state, or out of the local taxes, such aid should be given directly and openly. In the case of the Dublin hospitals, the benefits they confer are not confined to Dublin, and they are supported, very properly, by other persons as well as by residents in Dublin. Patients are received from all parts of Ireland, and students from all parts of the United Kingdom attend the schools of medicine attached to the hospitals. If the hospitals in Dublin were rated, subscribers to the hospital who are also rated for property in Dublin would be *pro tanto* relieved. They might, if they chose, increase their subscriptions proportionately.

On similar grounds places of worship should plainly be rated. All denominations are now on the same footing at law, and are maintained on the voluntary system. Forced contributions should not be levied by exempting them from local taxation. Until 1833 the only places of worship exempted from poor-rates in England were episcopal churches. Cap. 30, 3 & 4 William IV. exempted other places of worship from both poor-rates and church-rates. As an objection to rating churches it has been suggested that the rates could not be collected. Whatever opposition might be made to passing such a law, it is not only probable, but certain, that, once passed, ministers of religion, trustees, and managers of places of worship would not resist the law. Some difficulty might be found in settling the rateable value of a church, but not more than has to be met within the cases of railways, gas works, etc. An approximation to the minimum capital value would be obtained by ascertaining the sum for which such structures are insured; a percentage on this, at least, added to the rent value of the land on which they stand, would be a minimum rateable value. This would give a rateable

value of from £700 to £1,000 a year as the lowest limit for such buildings as St. Patrick's Cathedral and Christ Church.

In 1871 Mr. Goschen proposed to abolish exemptions, and in his speech in the House of Commons said :—

“ We propose to take one intelligible and uniform system, and to render every hereditament, corporeal and incorporeal, liable to these burdens, with the exception only of certain kinds of property of the nature of a rent-charge. The effect of these proposals will be that Government property will be rated ; but the rule must be universal. We believe that the claims of Government property to exemption are very considerable, and if claims are set up on behalf of municipal buildings, charities, and the like, it must clearly be understood that it may be necessary for us to reconsider our decision on this point.”

Exemptions still exist in England, and the payment of rates on Government property is still a voluntary act. In practice, however, there are not nearly as many exemptions as in Ireland. Rates are imposed on many hospitals, churches, and other such institutions.

In 1865 a return was made of the property exempted from rates in all Ireland, and the annual rateable value of such exempted property amounted to £348,104. It is now probably nearly £500,000.

In 1863 a similar return was made of all houses, buildings, and lands exempted from rating in the city and county of Dublin. The annual value of exempted property was :—In the city, £58,447 ; in the county, £21,112. The property exempted in the city comprises barracks, gaols, courts, and other public buildings, the value of which, if assessed on the principle I have suggested, would be very much larger than it is at present. A revaluation of the city on this principle, and the abolition of all exemptions, whether total or partial (owing to undervaluation), would go far to relieve many properties in Dublin from a taxation that is felt to be not only heavy but unjust.

VI.—*Causes of Slow Progress of Political Economy.* By Samuel Haughton, Esq. (of Eccles-street).

[Read, 18th February, 1879.]

POLITICAL Economy has not of late made progress in public estimation, nor can it be placed in rank, by its most ardent admirers, as a science of which the laws—it may almost be said any one law—were undoubted or capable of positive proof.

This state of opinion is partly due to the over-estimate of many writers and advocates, who assumed for this science a position of eminence or control over human affairs, which control is not granted by man, without much contest and directing management, to any of the exact sciences, however clear or forcible may be their laws. These writers asserted that this science of mere wealth was to be the master, not the servant, of man—that, wealth was to be the perfection of human attainments, and that other human feelings,