Valuing and Taxing Iconic Properties
A Perspective from the United Kingdom

© iStockphoto/Robert Ellis

The property taxes on Stonehenge are determined by the income the megaliths generate as a UNESCO World Heritage Site.

William McCluskey and David Tretton

In most countries, government property is not liable for property taxes; indeed, the whole idea may be seen as a circular shifting of money (Bird and Slack 2004; Youngman and Malme 1994). The United Kingdom has taken a very different perspective recently. Regarding it as important that both government and local government occupiers are aware of the true cost of holding property, the UK insists on a system of notional rents and ensures liability for local property taxes.

From the enactment of the Poor Relief Act in 1601, the generally accepted starting date for the taxing of local property in the UK, until 2000 when changes were enacted, property occupied by the government or Crown was not subject to property tax or "rates." However, the Crown did accept that it was appropriate to make some contribution to meet the costs of local services and paid ex gratia contributions in lieu of rates (CILORs). This process suffered from a number of problems: the contributions were voluntary; Crown property did not appear in the valuation lists; and the basis upon which the contributions were made lacked the rigor and transparency of valuation that applied to all other property.

The Local Government and Rating Act was introduced in 1997 for England, Scotland, and Wales (with an amendment in 1998 for Northern Ireland) to effectively place all Crown property on the same footing as all other taxable property, liable to be assessed for rates. These provisions came into effect from April 1, 2000. As a result, such iconic buildings as the Palace of Westminster and the Tower of London are now being valued in the same way as all other property for the first time.

Valuing Commercial Property

Valuation officers of the Valuation Office Agency (VOA), a part of Her Majesty's Revenue and Customs (HMRC), are responsible for compiling and maintaining commercial (nondomestic) property rating lists for England and Wales. The local assessors are responsible in Scotland, and the Land and Property Services have responsibility for Northern Ireland. Broadly speaking, the rateable value of a nondomestic property is based on the annual rent

that it could have been let for on the open market at a standard date (the antecedent valuation date). For England and Wales, the antecedent date of the 2000 lists was April 1, 1998; for the 2005 lists it was April 1, 2003; and for the 2010 lists, which came into effect on April 1, 2010, it was April 1, 2008.

Table 1 shows the number of taxable properties in England and Wales and their total rateable (taxable) value. Comparisons with capital value-based property taxes are a little difficult because it is necessary to know the relevant yields to make the comparison, but even so it is clear the level of taxation is unusually high for a property tax. The tax level for England and Wales is approximately 45 percent, but this is on rental, not capital, values.

The UK government sets a separate uniform tax rate (poundage) for England known as the nondomestic rating multiplier. For Scotland and Wales, it is set by their respective assemblies, and for Northern Ireland each district council sets its own rate. This determines the sum payable on every pound sterling of rateable value to arrive at the full rates bill. Local authorities remain responsible for calculating the bills and collecting nondomestic rates payable on properties within the authority's area. They do not, however, retain the rates they collect but pay them into a national pool (one each for England and Wales). The money in the pool is then redistributed to local authorities with special arrangements for the City of London.

Background on the Crown Exemption

Prior to the 2000 rating lists, certain properties occupied by the Crown, e.g., central government offices and Ministry of Defence establishments, were exempt from rating and did not appear in any rating list. The Crown did, however, make an ex gratia CILOR based on a notional rateable value.

The Crown was neither expressly mentioned in the Poor Relief Act of 1601, the original rating act sometimes referred to as The Statute of Elizabeth, nor in the General Rate Act 1967 that replaced it. As it was a principle of UK law that the Crown was not bound by an act of Parliament unless specifically mentioned, there was no liability for rates. Further, no rates could be imposed with respect to property occupied by its servants whose occupation amounted to occupation by the Crown. This position was upheld by *Jones v. Mersey Docks* 11 HL Cas. 443 (1865).

However, as far back as 1860, the government accepted the principle of the Crown paying something by way of ex gratia CILORs with respect to property occupied for public purposes. This practice was made uniform in 1874. The Treasury of the UK, by formal Minute, adopted the principle that property occupied for the public service should contribute to the local rates equally with the other property in the parishes in which it was situated, having regard to its character in each case. The Treasury Minute established the Rating of Government Property Department (RGPD) to undertake the assessment of all government property with the intention of adopting in each case as far as possible the same principles as were applicable to the valuation of private property. Nineteenth-century case law established that the exemption applied only to property occupied by the Crown itself or its servants, but not to other property occupied for public purposes. Generally, therefore, the exemption applied to property occupied for the purposes of the central government and the Royal palaces and parks, and to other property occupied by servants of the Crown (for example, occupation by government ministers or by military personnel of Royal Naval, army, and Royal Air Force bases).

In 1896, a further Treasury Minute reaffirmed the principle of equal contribution and made certain concessions in order to carry it fully into effect. The concessions included periodical revaluation, punctual payment, and a contribution with respect to the Houses of Parliament.

The following were the main characteristics of the CILOR in the last few years of its existence:

- The Crown Property Unit (CPU) of the Valuation Office Agency (VOA) was responsible for agreeing to the assessment and CILOR (following its absorption of the RGPD).
- CILOR payments were collected by rating authorities from the CPU.

TABLE 1
Nondomestic Rate Statistics, April 2012

Jurisdiction	Number of Properties	Total Rateable Value (billions)	Rating Multiplier (tax rate)
England	1,736,000	£58.575 (US$92.76)	45.8%
Wales	106,000	£2.587 (US$4.11)	45.2%

Source: *http://www.hmrc.gov.uk/stats/non_domestic/menu.htm*

- Valuations were carried out, and bills calculated, on exactly the same rules and methods as under the rates proper, taking account of any relevant rating reliefs.
- Local authorities included CILOR payments with other nondomestic rate income paid into the rating pool, and the combined payments were then redistributed to receiving authorities.

The CILOR arrangements differed from standard rating procedures in the following main respects:

- Contributions were, in theory, voluntary.
- Valuations originally decided by the RGPD, albeit after discussion with the local valuation officer, were not always at the same level as normal assessments.
- Crown bodies did not have the same rights as ratepayers to appeal against their valuations, and to have their appeal determined by an independent Valuation Tribunal.
- Because the Crown is, in constitutional theory, one and indivisible, the CILOR treatment of properties occupied by more than one Crown body differed from the usual treatment of rateable property in more than one occupation. For CILOR, a single valuation was normally carried out for the property as a whole, and a single bill was calculated and sent to the major occupier, who then recouped the appropriate proportion of the total payable from the minor occupiers. Under standard rates, separate valuations are usually carried out for each separately occupied part of the property, and each occupier receives a separate bill.

Dating to the Norman Conquest of England, the Tower of London pays property tax as one of the UK's most popular tourist attractions.

© iStockphoto/John Woodworth

Rationale for Removal of the Crown Exemption

The government debated the removal of the Crown exemption as far back as World War II. The Central Valuation Committee, in a letter of January 21, 1947, to the Minister of Health, while in effect suggesting such a removal also stated that it had long been its view that the then-arrangements for the rating of property occupied by the Crown were in many respects unfair and unsatisfactory to local authorities, who at the time set their own rate levels. In the 1950s, the English local authority associations expressed their dissatisfaction with the Crown exemption and went so far as to say that the manner of assessing CILORs was completely arbitrary and frequently worked to the detriment of local authorities. They estimated the rateable value of Crown property in England and Wales in 1952 to be around £14 million out of a total rateable value of about £341 million, which would equate to £2.2 billion based on levels of value at the 2010 revaluation.

In the mid-1990s the government considered several drivers for change:

- The Crown's exemption from rates served no clear public policy objective, since Crown occupiers were, in any case, expected to make CILORs.
- It was the government's general policy, as stated in the Citizens Charter White Paper (1991), that general Crown immunity should be removed progressively as legislative opportunities became available, so that the Crown should in general be subject to regulatory and enforcement arrangements on the same basis as others.
- The lack of appeal rights for Crown occupiers was unsatisfactory in principle.

The Local Government and Rating Act 1997 made provision to end the Crown exemption from nondomestic rates in England, Wales, and Scotland, effective April 1, 2000. Rating authorities would collect rates on Crown properties directly from the departments concerned, rather than from the CPU. These authorities also would be able to proceed with enforcement proceedings against the Crown, as they would with other ratepayers. Although this would happen in only the rarest of

The two houses of British Parliament (Commons and Lords) meet at the Palace of Westminster and are liable for property tax.

cases, rating authorities would in principle be able to take steps against a government department to obtain a liability order for unpaid rates if the need arose.

It has been suggested by the rating profession in the UK that, since rating is a tax, valuing and taxing properties occupied by public bodies is a waste of public resources. Properties that might fall in this category include those occupied by the Ministry of Defence, National Health Service, and local authorities. Superficially, valuing and taxing these properties may appear unjustified. The difficulty is that many activities traditionally carried out by central or local governments are now also performed in the private sector. Leisure centers are just one example. Exempting local authority properties from rates when they compete directly with the private sector could be argued to be unfair as it would give the public sector a fiscal advantage.

While the public sector occupies other buildings whose current use clearly does not compete with private business, it is difficult to justify exempting some publicly occupied properties and including others. The original justification for rating buildings occupied by public sector bodies (including the removal of Crown exemption in 2000) was to establish a level playing field, ensure that the costs of occupation were fully recognized, and make transparent the contribution of public sector bodies to the cost of providing local services.

The Valuation of Iconic Buildings

The removal of the Crown exemption precipitated the need to value a wide variety of unusual properties. Rating in the UK is an occupier's not an owner's tax and is based on broad actual use rather than highest and best use. Very old buildings often have to be valued, though many of them have been modernized and used for diverse purposes, such as offices, commercial mixed uses, or, at least in part, tourist attractions.

The traditional comparison valuation approach could be made with similarly used properties to enable determination of an indicative rental value for some structures, but for others the task was much more difficult. For example, Somerset House on the River Thames is a purpose-built office block, but it is the world's first purpose-built government office block, dating back to 1776, and it has been

© iStockphoto/oversnap

Buckingham Palace is a tax-paying Crown property as the official residence and office of HM Queen Elizabeth II.

used in commercial filmmaking, and so is difficult to compare to other buildings.

Valuing unusual properties is not confined to Crown properties or those for which the rental comparison method cannot be used because there are no relevant comparisons. In such cases, the use of the Receipts and Expenditure (R&E) or income method may be a more reliable guide to assessing the market rental value of a property. This method is appropriate if the property to be valued is commercial in nature or has a degree of monopoly, and an occupier would be motivated primarily by the prospect of profit in its use of the property and, indeed, makes a profit (Bond and Brown 2006).

If neither the comparison nor R&E methods can be used, then the Contractors Basis or cost method is applied where the property is provided primarily for public purposes and is not occupied for commercial profit, or where the property concerned is commercial but it is not a profit center with its own accounts. In both cases the occupier (or owner) would be prepared to incur the cost of a replacement property to carry on the use of the property.

In addition to the problem of valuation is the UK complexity of having a separate tax on domestic property. In England, Scotland, and Wales this is the Council Tax, but in Northern Ireland the system is one of Domestic Rates. If any part of a property is used for domestic purposes, as defined in the legislation, then that use is assessed for the domestic tax. Thus, Buckingham Palace and Windsor Castle, both royal palaces, have a rating assessment on the non-domestic, commercial element and a council tax on the domestic sections of the buildings.

Palace of Westminster

The Palace of Westminster, also known as the Houses of Parliament, is a royal palace and the meeting place of the two chambers of the Parliament of the United Kingdom—the House of Lords and the House of Commons. The Palace is the center of political life, and Westminster has become a metonym for the UK Parliament and the Westminster system of government for which it is named. The Elizabeth Tower, often referred to by the name of its main bell, Big Ben, is an iconic landmark of London. The Gothic Revival architecture by Sir Charles Barry dates from only 1840, but the remarkable Westminster Hall with its hammer beam roof dates from 1097.

The Palace of Westminster has been part of a World Heritage Site since 1987. The Palace had a rateable value of £14,700,000 in the local 2010 rating list (£5,500,000 in the 2000 rating list). If the standard tax rate of 45.8 percent is applied, then the tax liability ignoring any reliefs would be around £6,730,000 per year. The assessment actually combines four buildings: the Palace, Portcullis House, 1 Derby Gate, and the Norman Shaw buildings. All parts are valued on the comparative method with respect to offices, with allowances for layout and size if appropriate. In the case of the Palace the two chambers are valued at 65 percent of the main rate per square meter. There is a further end allowance to reflect the overall amount of floor space in the property.

Buckingham Palace

Buckingham Palace is the official London residence and principal workplace of HM Queen Elizabeth II, both with respect to her position as British monarch and head of state of many countries around the world, and as head of the Commonwealth. Located in the City of Westminster, the palace is a setting for state occasions and royal hospitality. Originally known as Buckingham House, the building that forms the core of today's palace was a large townhouse built for the Duke of Buckingham in 1705. Buckingham Palace became the official royal palace of the British monarch on the accession of Queen Victoria in 1837.

Buckingham Palace is used in part as one of the monarch's residences but consists mainly of offices. Recently limited commercial use has been introduced, as part of the building is open to visitors. The commercial portion has a rateable value of £1,300,000 in the local 2010 rating list. It is valued using two methods. First, the R&E or income method is used to reflect the commercial component (approximately 400,000 people visited during 2011). The property is open for 63 days per year with limited opening hours, so the relevant receipts are annualized, and 5 percent is added to reflect the fact that longer opening hours would generate more ticket sales. The trading accounts as published show that the rateable value equated to 6.3 percent of Fair Maintainable Receipts. Second, the Contractors or cost method is used for the Queen's Gallery. The residential component of the palace has 775 rooms, including 52 Royal and guest bedrooms, 188 staff bedrooms, 19 state rooms, and 78 bathrooms. In 2011–2012 it had a council tax bill of £1,369.

Tower of London

Her Majesty's Royal Palace and Fortress, commonly known as the Tower of London, is a historic castle on the north bank of the River Thames in central London. It dates to the Norman Conquest of England in 1066, and the White Tower, which gives the entire castle its name, was built by William the Conqueror in 1078. The Tower has served variously as an armory, a treasury, a prison, a menagerie, the home of the Royal Mint, and a public records office. Now it is home to the Crown Jewels and is one of the country's most popular tourist attractions, having some 2.55 million visitors in 2011.

It is protected as a UNESCO World Heritage Site (and by some very high walls and elaborate alarm systems). It is valued by the R&E method, due to its particular value as a tourist attraction, and the rateable value equates to approximately 4.7 percent of fair maintainable receipts. For the local 2010 rating list the property had a rateable value of £1,790,000 (for the 2000 rating list the value was £1,180,000).

Stonehenge

Stonehenge is a prehistoric stone circle on Salisbury Plain comprising a megalithic rock monument of 150 enormous stones set in a circular pattern dating back to 3000 BC. While there are larger stone circles in the world, including one nearby at Avebury, Stonehenge is unique because the Sarsen stones are surmounted by lintels connecting to one another and once formed a complete, connected ring. Stonehenge was built over a period of 1,500 years. It is a World Heritage Site attracting some one million visitors per year. Given the commercial operation of the property, it has been valued using the R&E method at a rateable value of £700,000.

Summary

Crown-owned and occupied property is currently valued in accordance with normal valuation methods and principles. The removal of the Crown exemption has resulted in the "correct" valuation of unique and often iconic historic buildings. The valuation methods applied have to reflect the use of the buildings and, where rental evidence is limited, the cost-based approach may be required. This latter approach brings with it significant difficulties when applied to buildings that are several hundred years old. In such circumstances valuers have to be creative, artistic, and scientific in their valuations.

ABOUT THE AUTHORS

WILLIAM McCLUSKEY *is a researcher in the Built Environment Research Institute, University of Ulster, Northern Ireland, UK. Contact: wj.mccluskey@ulster.ac.uk*

DAVID TRETTON *FRICS FIRRV is a visiting professor in the School of the Built Environment, University of Ulster, Northern Ireland, UK. He was formerly Head of Profession and Director of Rating at the Valuation Office Agency, London, and is currently the technical editor of the RICS Valuation – Professional Standards (Red Book). Contact: dtretton@rics.org or djtretton@btinternet.com*

The authors thank Patrick Bond, BSc FRICS Dip. Rating IRRV (Hons), head of Commercial, Leisure and Civics National Specialists Unit, Valuation Office Agency, London.

REFERENCES

Bird, R. M., and E. Slack. 2004. *International handbook of land and property taxation.* Northampton, MA: Edward Elgar Publishing.

Bond, P., and P. Brown. 2006. *Rating valuation: Principles and practice.* London: Estates Gazette.

Citizens Charter White Paper. 1991. Citizens Charter Open Government, Cm 2290, HMSO, London.

Youngman, J. M., and J. H. Malme. 1994. *An international survey of taxes on land and buildings.* Boston, MA: Kluwer Law and Taxation Publishers.