



A CASE STUDY: REFURBISHING DANISH PROPERTY TAXES FROM 2024 ONWARDS

With only a few countries around the globe having an existing land value tax in place little Denmark is occasionally highlighted as an example to be emulated; especially for those land value tax proponents with a preference for incremental societal change.

Indeed, the Danish land value tax has been a component to funding the Danish welfare state for generations. Today I would argue that it can best be described as modest in scale. Though many fellow Danish house owners would beg to differ.

What should make the Danish property taxes particularly interesting to readers of *Land&Liberty* is the well-defined distinction between the estate tax, *ejendomsværdiskat* – a tax on the property as a whole – and the actual land value tax named *ejendomsskat* or *grundskyld*.

Perhaps noteworthy to readers with overlapping interests in linguistics and the ideas of Henry George the latter translates directly from Danish into “ground-obligation”.

THE 2024 REFORM AND IMPLEMENTATION

In contrast to the estate tax, the land value tax in Denmark is not withheld directly from the personal income of taxpayers, instead it is paid biannually, essentially by means of an old-fashioned invoice sent to property owners directly from their local municipality. If for no other reason than this the land value tax bears a distinct disrepute – even in a populace so accustomed to high taxes on almost every aspect of human existence. In fact, according to the OECD only France is occasionally able rival Denmark as the country with the highest tax burden.

Still, citizens enjoy some of the highest standards of living with well-functioning institutions and a high-degree of measurable life satisfaction. What transpires on the land value tax scene in this small Scandinavian democracy is worth noting.

In fact, what is worth noting is recent reform to the Northern country's property tax system *en bloc*. Planned for permanent implementation in 2024 this new reform was a long-lasting source for anxiety amongst Danish land value taxers and – at least a few – Danish economists. Both groups fearing that the fundamental distinction between the estate tax and LVT would simply not survive.

Speculations around LVT being phased out and replaced by a “catch-all” estate tax were anchored to years of assessment inaccuracies plaguing both the Danish Tax Agency and Danish property owners.

Adding to the speculations was the simple fact that political discourse had centred around a stated ambition of “simplifying” the Danish property tax scheme. This deliberate choice of words was prevailing in the early stages of the reform process. Initially, a few Danish finance commentators interpreted this as groundwork being laid for the abolishment of LVT in Denmark entirely. Obviously such events would have drastically muddled the waters between the estate value of brick-and-mortar and the location value of the land. In fact, had this indeed been the reform outcome, it would likely have set the Danish LVT-movement back decades; if not defeated the movement permanently.

Importantly, this did not become the final political outcome. But first, let me try to explain the broader context.

THE BACKGROUND

The current Danish property tax scheme, which will now be phased out in 2024, has been centred around a 2001 political *quid pro quo* between the center-right and center-left tying the before-mentioned estate tax to the nominal value of the properties; meaning the 2001 assessed values. In doing so *de facto* providing property owners with a meaningful estate tax reduction in real terms since 2001.

Similarly, increases in LVT rates were effectively curtailed two years later when the government found an opportunity to restrict upturns to LVT to just seven percent. Before this policy change the LVT rates in Denmark were predominantly a municipality matter. The tangible price effects on housing since these limitations on estate tax and LVT were implemented I will leave for the readers of *Land&Liberty* to make educated guesses about.

The essential reason for this policy clutter making any sense at all (for both sides of the Danish Parliament) can be found via a quick search in the Danish Bureau of Statistics. Here you will find that the share of Danish citizens living in owner-occupied housing amounts to 57 percent (2018 numbers) – making this voter group vital to accommodate regardless of ideology.

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And the key consequence? Any political gambit benefitting home-owners that results in actual policy will become immensely difficult to overturn in any subsequent policy circle.

Though this may be a condition well-known to political observers globally, this feature (or bug) of the political landscape is particularly acute in a small consensus-minded democracy such as Denmark.

This boundary condition has found its way into the 2024 reform as well.

THE HOME-OWNERS' POLITICAL VETO

Firstly, the boundary condition could easily be identified in the early political discourse surrounding the reform. Both sides of the political spectrum promptly made it imperative that regardless of what the deliberation resulted in the total tax revenue from all property-related taxes was not to be raised. With all major Danish parties not wanting to risk the electoral wrath of existing homeowners the scope of the reform was severely halted from the outset.

Secondly, the content of the actual reform elicits the same political logic of not wanting to offend home-owners. The 2024 property tax rates will be lower on a percentage level (though improved, data-centric assessments will replace the 2001 logjam described earlier). In fact, Danish municipalities will be sanctioned and forced to lower their LVT tax rate if their future revenue from LVT ends up surpassing their tax revenue from LVT pre-reform.

On the plus side, municipality officials will still be obliged to systematically monitor the vacancy status of all properties, public or private. An owner of Danish property is obliged to inform her local municipality if her property is not occupied for a period longer than six weeks. If the property owner for whatever reason is unable to find an occupant it falls to the municipality to find a suitable renter – with the rent being set in accordance with the market value (with properties listed on the market being exempt from this policy).

The rule explained above combined with LVT in place strongly incentivizes that all housing in Denmark is in fact used for just that: Housing. And not just for speculation.

As mentioned, the tax rates will be lower from 2024 onwards.

In addition to this, all existing homeowners will be allowed to deduct the difference in nominal terms between their property tax bill *pre-reform* and their new tax bill in 2024 and beyond. In the future when the value of properties will rise even further, existing homeowners will still see a property tax increase on the margin; however they will be permitted to keep their deduction as long as they do not sell their current home.

Ironically, in the short term this twist has only made a boiling Danish housing market heat up even more with buyers vying to complete housing purchases just in time to be eligible for the attractive tax deduction. In particular this has been the case in large metropolitan areas where the discrepancy between the fixed 2001-assessed values and the actual market values of the properties has been most prevalent; and, correspondingly, made the 2024 tax deduction extra lucrative.

THE CITIES AND THE PROVINCES

The contrast to the more rural areas of Denmark is stark. The old valuation method systematically privileged metropolitan areas with low valuations in comparison to areas far from the large cities. People in the less-populated areas of the country found their city-dwelling countrymen pocketing large price increases on their properties.

The capital city, Copenhagen, including its attractive Northern suburbs, benefitted the most. The 2001 policy of tying of the estate tax to the nominal value and the 2003 land value tax increase limitations has only embedded this basic dynamic further.

With the 2024 tax deductions disproportionately favouring owners of housing close to – or simply *in* – large cities, this fundamental inequality will continue for generations to come. A peculiar circumstance in a society that prides itself on being one of the most equal countries in the world.

Though possibly a little bit watered-down, at least the – already modest – land value tax with its new modernized assessments has survived the “simplification” of the Danish tax code from 2024 onwards. 🇩🇰