

THE NEXT STEP IN LAND VALUATION AND TAXATION

Statement by the United Committee for the Taxation of Land Values

Are Land Values Taxed Already?

It is sometimes said that land valuation has been provided for and that land values are taxed already under the Budget of 1909.

That Budget did indeed provide for a valuation, and for the imposition of the so-called "Land Value Duties." This valuation has been completed, except that the final settlement of some cases has been postponed pending appeals in the courts and on the plea of the war. Half-hearted attempts have been made to levy the Duties.

Of those Duties, the Increment Value Duty, the Reversion Duty, and the Undeveloped Land Duty have yielded hardly any revenue. The Mineral Rights Duty has yielded a little more, but it is a duty on mining royalties, and not a tax on the value of mineral-bearing land. The total revenue derived from all the Duties has been quite disproportionate to the cost of the valuation and of the assessment and collection of the Duties.

The conclusion which is sometimes drawn is that the Taxation of Land Values has been tried, and has been proved to be a costly failure. This is a complete misconception.

Failure of the So-called "Land Value Duties"

The system set up by the Budget of 1909, with its "gross value," "total value," "full site value," and "assessable site value," involved much unnecessary expense and delay. The valuation and assessment created the maximum of friction and opposition, and after six years there is no prospect of the Duties bringing in any substantial revenue.

Even if they could be effectively levied, those Duties, being charged occasionally on a very small fraction of land value and on very small classes of land, and being whittled away by abatements and exemptions, would not be in any way equivalent to an annual tax on all land values properly defined.* They would not have the economic effect of such a tax, nor be any substitute for it as a revenue-producing instrument.

It does not, however, follow that the machinery of

* "Increment Value Duty is only charged upon sites which have increased in value at the time when they changed hands. Even then no duty is chargeable if the increase is less than 10 per cent.; and in any case the charge is not measured by the site value as a whole, but by the increment value, less 10 per cent. of the original site value. It is thus very far from being a general duty on site value. . . . Undeveloped Land Duty is limited to one particular class of land, i.e., land which is ripening for building, and this class has been largely cut down by the provisions contained in the Act for exemptions and abatements. For instance, if within twenty years the owner has spent a sum equal to £100 per acre on the provision of roads and sewers, the whole of his land included in a scheme of development is exempt from duty, and in this way the greater part of the most valuable undeveloped land has become exempt. Moreover, if undeveloped land is used *bona fide* for any business, trade, or industry other than agriculture, it is also exempt, however inadequate such use may be compared with the value of the land." (Separate Report, Departmental Committee on Local Taxation, Blue Book Cd. 7315, 1914, p. 115.) And in the case of agricultural land of which the site value exceeds £50 per acre, undeveloped land duty is chargeable only on the amount by which the site value exceeds the value of the land for agricultural purposes. No duty is chargeable in any case where the site value of the land does not exceed £50 per acre.

land valuation, and the data which have been collected at great expense, have been proved to be useless and should be thrown on the scrap-heap, as was proposed recently by the opponents of the Taxation of Land Values. It is Part I of the Finance (1909-10) Act, 1910, which has proved a costly failure, and not the Taxation of Land Values. It was the complex and arbitrary definitions of value, and the adoption of the fantastic and abortive "Land Value Duties" instead of a simple tax on land values, which brought about the unsatisfactory financial result—the meagre revenue and the excessive cost of making the valuations and assessing and levying the Duties.

A Practical Productive Tax on Land Values

A single Valuation Roll of Land Values could have been—and can now be—completed, and an annual tax could have been—and can now be—levied on such values at much less cost and in a much shorter time, and such a tax would have produced—and would now produce—at once a great and growing revenue.

It was with a view to such a use that the advocates of the Taxation of Land Values supported the principle of Land Valuation and have since tried year by year to obtain a more serviceable valuation. That the method and object of valuation has been temporarily perverted, is no reason why the work done and the expense incurred should be thrown away. The proper conclusion is that the machinery still in existence and the data already obtained should now, when the need for revenue is greater than ever, be put to the fruitful use for which they were originally advocated and which they can now fulfil.

An Untapped Source of Revenue

That there is a large untapped source of revenue in land values is certain. The value and extent of the land which now escapes assessment for the rates and taxes which purport to fall on landed property generally, is indicated in Appendix A. Now that the work of valuation has made it possible to tap that source, it is inconceivable that, in the present financial emergency, the Government should abandon this new source of revenue and allow it still to run to waste.

Definition of Land Value

The first requirement is a single, simple, and practical definition of land value. The number of different values defined by the Act of 1910 has made it impossible for any but experts to deal with questions arising under the Act, whereas it is desirable that a national tax on land values should be comprehensible in its nature, basis, and incidence to any intelligent citizen.

Land Value is a value attributable to the community, and should be defined as the market value of each piece of land, free from encumbrances and all burdens and charges other than rates and taxes, but subject to public rights and all easements. There should be included in the land value the benefit of any franchise, licence, or monopoly. There should be excluded the value of buildings, structures, trees and shrubs, and of all improvements existing upon the piece of land which is being valued, and especially in the case of land used for agricultural purposes the present value due to

ploughings, seeds, sowing, tillages, or any other thing done for the purpose of cropping or feeding in the ordinary course of husbandry.

The value of minerals should be ascertained separately or included with the value of the surface as may be determined by the valuation authority according to the equity of each case.

The valuation should be made with due respect to the existence of all public streets, open spaces, railways, and other similar undertakings, and of all buildings, &c., existing upon all sites except the plot which is being valued. Owners should not be entitled to any deduction for the value attributable to works executed by them on land other than that which is being valued. The value of land is created and determined by the presence and activities of the population, and the proper method of valuing each separate plot is to consider that plot as a bare site, and to exclude the value of all improvements made upon it, while recognising the existence of all other improvements wherever they exist. The owner of a number of properties in addition to the one which is being valued is, in respect of the latter, entitled to a deduction only for the improvements upon it. In respect of the plot which is being valued he is no more entitled to any deduction for improvements on other properties than are the other members of the community whose presence and activities and expenditure have created and maintain the value of the land.

How the Valuation Roll can be Completed

A Valuation Roll of land values on this basis could be completed now with very small expense and trouble, and the tax might be collected in the same year that it is imposed.

Every property in Great Britain has now been surveyed and valued under the Act of 1910, and particulars of all subsequent dealings in the properties have presumably been recorded with a view to the levy of Increment Value Duty. The "full site value" as defined by the Act of 1910 has presumably (though the published Reports are silent on this point) been ascertained in all cases, and all that remains to be done is to adjust the valuation according to the proper definition of Land Value and bring it down to date for the purpose of the new tax.

It is only necessary that the information now in the possession of the Valuation Department should be supplemented by particulars, to be furnished by owners, of their holdings as they exist to-day. Such particulars could be obtained by means of a short and simple form of return which owners should be required to procure and fill in at once. In this return, owners should also be called on to give their own estimate of the value of their interest in accordance with the definition embodied in the Bill. This would materially lessen the work of the Valuation Department, and ensure the completion of the new Valuation Roll in time for the tax to be collected within the first year. The Valuation Department will be in a position to check the owners' valuations, and to make forthwith any valuations in default of returns.

The present financial emergency has already been held to justify new and drastic methods for assessing taxes. Landowners may be expected not to fall behind other persons in co-operating patriotically with the Government, especially if it were provided that the initial valuation should be revised after the War and that any necessary allowances and adjustments should then be made.

Apportionment of the Tax

Each piece of land should stand charged with the full amount of the tax—say twopence in the pound—on its land value, and where there is only one person interested in the land value, that person will pay the full amount of the tax. But where there are more than one person interested in the land value, each person should be charged with his share of the tax in proportion to his interest in the land value for the period for which the tax is levied. Provision should therefore be made for apportioning the tax between the several interests in the ratio of the annual amount of land value belonging to each interest. Examples of apportionment are given in Appendix B.

Right of Appeal

Landowners having, since the Act of 1910 was passed, had ample notice and opportunity to inform themselves as to the particulars and value of their interests, should have no difficulty in submitting estimates which would in most cases be acceptable to the Valuation Authority. But in accordance with the original provisions of the Finance Bill of 1909, any person aggrieved should have a right of objection, and, failing agreement with the District Valuer, a right of appeal, within such time and in such manner as may be provided by rules made by the Treasury, against the valuation and the amount of any assessment of duty. Such appeals should be heard in the locality where they arise by one of the referees on the panel established by the Act of 1910. No objection against the valuation should be allowed to be brought by any person who has not returned an estimate of the land value, and the valuation should not be allowed to be questioned on an objection to an assessment of duty. When the valuation has been completed it should be published, as recommended in the Separate Report on the Rating of Land Values of the Departmental Committee on Local Taxation (Cd. 7315 of 1914, p. 117).

Allowance in Respect of Property Tax

The levy should be on all land values, but the tax paid could be taken into account in connection with the levy of Income Tax, Schedule A. It could be provided that the amount of Property Tax in respect of the annual land value in the Schedule A assessment could be remitted so far as it did not exceed the amount of the Land Values Tax. In this way the land value which is now charged either nothing, or less than its fair share, because the owner withholds his land from full use, would be brought under contribution without inflicting a double burden on the owners of land value. The "Land Value Duties" should be dropped, so that the whole of the time and energies of the Valuation Department might be devoted to the new Valuation, leaving the collection of the tax in the hands of the Revenue Authorities.

Fairness and Urgency of the Proposal

Anyone looking at this proposal impartially can hardly fail to recognise its fairness and its urgency in these days of financial strain, when all sources of wealth are called on to contribute their fair share. If there is one class that cannot make good any claim to escape fair contribution, it is that of the landowners who hold land which they are neither using nor allowing anyone else to use.

The man who holds land out of use or only puts it to partial use is vetoing all the production which would be possible if labour and capital had access to that land on fair terms, and, by helping to maintain an artificial scarcity of land, he is increasing the price of it, and so worsening the conditions upon which labour and capital may obtain access to any land. In these days it is not only fair but urgent for economic reasons that all landowners should be taxed alike on the true value of the land they hold. The great need now is, and will be in the years to come, to open up every source of wealth and to increase production in all possible ways, in order to maintain our economic position during the war, and to repair the waste afterwards. The taxation of land values is the surest means to this end, as it would tend to bring into full use land which, in the absence of such taxation, landowners are encouraged to under-use or keep out of use altogether.

For the above reasons it is urgent at once to take the necessary administrative and legislative steps to secure the Taxation of Land Values.

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TAXATION OF LAND VALUES.

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APPENDIX A.

That there is an untapped source of revenue in land values is clear. It is sometimes said that land values already pay Property Tax (Income Tax, Schedule A). It is true that in the case of small occupied properties let by the week, month, or year, the rent is the basis of assessment, and the rent includes the full land value. But in the case of large properties not usually let on short terms, there is no standard such as rent to go by, and, as the present assessors are not skilled in valuation, such properties are under-valued for assessment; and some portion of the land value escapes. Again, valuable sites are often occupied by old and unsuitable buildings, and the greater portion of the land value escapes. It is common for land which is ripening for building to be used for agricultural purposes or for sport, and in that case it is assessed according to the value of such use. Here, also, the greater portion of the land value escapes. Lastly, very valuable land often lies unused for years, because the owner stands out for too high a price. In such case the whole of the land value escapes except in so far as it may come within the scope of the Undeveloped Land Duty, which is quite inadequate. In the aggregate land values which thus escape there is a large new source of revenue.

Some indication of the extent of the land and amount of the value which escapes assessment is to be found in the figures relating to local rates, the assessment for which, as for Income Tax, is determined by the actual use or non-use of the land.

About two-thirds (65 per cent.) of the land in urban districts is rated as "agricultural land," though very valuable and urgently wanted for housing and industrial purposes. Being put to this inferior use, it is assessed at an insignificant amount, and contributes only 2½d. out of every £ collected in rates.

These figures are not guesswork. They are based on an official document—White Paper 119 of 1913—which gives particulars of how the burden of rates falls

in 1,076 Urban Districts in England and Wales, having a population, in 1911, of 21,206,450. The totals for all these Urban Districts are as follows:—

Total area	3,884,139 acres.
Area rated as "agricultural land"	2,533,035 acres.
Rates paid on all land	£35,429,301
Rates paid on land rated as "agricultural land"	£400,689

APPENDIX B.

EXAMPLES OF APPORTIONMENT OF TAX.

CASE A.—House let on lease for 21 years at a rent of £110 per annum.

Land Value £600.

Land Value Tax at 2d.—£5.

The rent represents the full annual value of the property, so that the Lessee, included in his rent, pays to the Lessor the full value of the land.

Charge upon Lessor.—£5

Charge upon Lessee—nil.

CASE B.—House and shop let on lease for 79 years unexpired at a rent of £60 per annum.

Land Value £675.

Land Value Tax at 2d.—£5 12s. 6d.

This Lease was granted 20 years ago when the rent represented the fair net annual value. The premises are now worth £80 per annum owing to an increase in Land Value. The rent of £60 includes £15 for Land Value; and the Lessee enjoys (without payment) £20 annual Land Value.

Charge upon Lessor 15/35 of £5 12s. 6d., or £2 8s. 2d.

Charge upon Lessee 20/35 of £5 12s. 6d., or £3 4s. 4d.

CASE C.—Chapel let on lease for 99 years at a ground rent of £8 per annum.

Land Value £280.

Land Value Tax at 2d.—£2 6s. 8d.

The land value is now £14 per annum, of which the Lessor receives in rent £8, and the Lessees (the Chapel Trustees) enjoy £6 without payment.

Charge upon Lessor 8/14 of £2 6s. 8d., or £1 6s. 8d.

Charge upon Lessees 6/14 of £2 6s. 8d., or £1.

CASE D.—House and shop let on lease for 80 years at a ground rent of £6 per annum, and sub-leased for 21 years at a rent of £50 per annum.

Land Value £200.

Land Value Tax at 2d.—£1 13s. 4d.

The land value is now £10 per annum, having increased since the original Lessee built the house. The rent of £50 is the full rack rent, so that the Sub-lessee enjoys no land value that he does not pay for in his rent. The Lessor receives only £6, so that the balance (£4) is obtained by the Lessee.

Charge upon Lessor 6/10 of £1 13s. 4d.—£1.

Charge upon Lessee 4/10 of £1 13s. 4d.—13s. 4d.

Charge upon Sub-lessee, nil.