

## A SCHEME FOR LAND-VALUE TAXATION

By J. Dundas White, LL.D., M.P.

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### 1—INTRODUCTORY

At a time like the present, when new taxes are required to meet the cost of the war, special consideration may be given to the proposal for a tax which would secure to the people a substantial share of the land on which they live and for the defence of which they are fighting. Taxes on what is called the unimproved value of land have worked well in Australia, in New Zealand, and elsewhere. The proposal for a similar tax here, under the name of a tax on land-values, has long held a prominent place in the Liberal programme; it has been approved by many Conservatives; and it was one of the measures recommended unanimously by the Labour Party Conference at Bristol in January of this year. The valuations of land which have been made under the Finance (1909-10) Act, 1910, have prepared the way for it. The time has come for action.

It will be remembered that the Finance Act did not even attempt anything deserving the name of land-value taxation. The so-called "land value duties"—the increment value duty, the reversion duty, the undeveloped land duty and the mineral rights duty—are very different from the simple tax on land-values, which has been the aim of the land-values movement.

### *Principles of the Tax.*

The land is the gift of Nature, and the value that attaches to it owing to the presence and demand of the people is a proper source of public revenue. A tax should therefore be imposed on each property, proportioned to the value of the land apart from the improvements, and payable whether the land is used or not. From the standpoint of expediency it is claimed, and proof is not wanting, that a tax of this character would promote production by bringing into use a considerable amount of land which at present is held idle or nearly idle, and would thus help to open up the natural opportunities for industry.

### *Practical considerations*

Of all taxes, a tax on land-values is the most just, the most beneficial, and the most universally applicable. In applying it to this country, the difficulties arise not from the nature of the tax but from the complexity of the land system, and the question of the method to be adopted requires careful attention. The scheme here proposed will suit these conditions and promote greater simplicity in future arrangements, besides securing certain other advantages which will be mentioned in due course. As regards amount, we should begin with an annual tax of 2d. or 3d. in the £ of capital land-value, and when the tax is in satisfactory working order we should increase its amount and effect a corresponding reduction of the other taxes on landed property in so far as they penalize the building of houses and the making of other improvements.

### 2—APPORTIONMENT OF THE TAX

#### *Allocation as between properties*

The capital land-value of each property should be ascertained like its full site value under the Finance Act; the valuations should be subject to annual or quinquennial revision; and each property should be taxed on the basis of its capital land-value for the time being, without deduction in respect of any contract made between any of the interests.

#### *Who should pay on each property?*

The question of who should pay the tax on each property may next be considered.

#### *Where only one Interest when Tax begins.*

Where there is only one interest in a property when the tax begins, that interest should pay the whole of the tax on the property.

#### *Where two or more Interests when Tax begins*

Where there are two or more interests in a property when the tax begins, each interest which receives part of the land-value as rent should pay a corresponding part of the land-value tax, and the remainder (if any) should be paid by the interest which is entitled to possession of the land.

To facilitate this plan, a certain percentage—say 5 per cent.—of the capital land-value should be regarded as the annualized land-value, and if any annual rent which has to be considered represents payment for both the land and certain improvements, the amount that represents payment for the land should be differentiated from the amount that represents payment for these improvements and may be called the annual land-rent—a name also applicable to the whole annual rent if it represents payment for the land alone.

The manner of allocating the tax may be illustrated by a typical case. If A, the freeholder, has leased a property to B, A should pay the land-value tax on it in proportion as the annualized land-value is absorbed by the annual land-rent which he receives, and the remainder (if any) of the tax should be paid by B. If B has sub-leased the property to C, B should pay that remainder (if any) of the tax in proportion as the remainder (if any) of the annualized land-value is absorbed by the annual land-rent which he receives less the annual land-rent which he pays, and what may be called the second remainder (if any) should be paid by C; and so on, until the whole tax is allocated. In the majority of cases the annualized land-value would be found to be absorbed by the highest and the next highest interests, and the process would not require to be carried beyond them.

#### *Expiry of existing Leases*

On the expiry of a lease which was in operation when the tax began, any part of the tax which was payable by the lessee should become payable by the lessor; if he in turn is a lessee, then on the expiry of his lease, any part of the tax which was payable by him should become payable by his lessor; and so on.

This provision would disentangle the present complications as existing leases expire.

#### *Leases granted after Tax has begun*

As from the time when the whole or any part of the tax becomes payable by an interest, it should con-

tinue to be payable by that interest, notwithstanding the subsequent grant by that interest of any lease of the whole or any part of the property. In any such subsequent lease the parties should be free to make any arrangements they like as between themselves, provided that the lessor remains directly liable for the tax and that any contract purporting to relieve him of that liability should be void.

This provision would prevent future leases from causing new complications . . .

#### *Co-ordination with Income Tax, Schedule A*

Where a person has paid the whole or any part of the Land-value Tax for any year in respect of an interest in the land-value of a property, he should be entitled to a remission of the Income Tax payable by him for that year under Schedule A in respect of the income which he derives from the land of (as distinguished from the improvements on) that property in so far as it does not exceed the amount of the Land-value Tax which he has paid.

This co-ordination was advocated in the statement presented to the Prime Minister and the Chancellor of the Exchequer by the Land-Values Group in the House of Commons in January, 1916.

### 3.—SYSTEM OF COLLECTION

The key to a satisfactory system of collection is to treat the tax on each property as a first charge on the land, and in the event of non-payment to proceed in the way to be described presently.

The Commonwealth of Australia Land Tax Assessment Act of 1910 provides in section 56 that "Land Tax shall until payment be a first charge upon the land taxed in priority over all other encumbrances whatever," and the Queensland Land Tax Act of 1915 has a similar provision in section 37. In this country priority has been given to certain charges on land, but the land-value tax should have precedence of them all, as being in the nature of a rent for the land payable to the Crown.

The procedure in the event of non-payment is based on the simple remedy, which the landlord reserves to himself in almost every lease, of resuming the land if the rent is not paid within a stipulated time. Section 44 (3) of the Conveyancing and Law of Property Act, 1881, provides a similar remedy for the enforcement of certain rent-charges. The proposed application of that remedy to enforce the tax is accompanied by provisions designed to safeguard the other interests in the property and to enable the defaulter to obtain reinstatement by paying the arrears within a certain time.

#### *Land-value Registries*

Land-value Registries, distinct from the existing Land Registries, should be set up in convenient centres. Utilizing the information recorded in the existing Land Registries and that obtained under the Finance Acts, each Registry should compile, as regards every property in the district, a list of the interests in it, beginning with the highest, that being followed by the next below it, and so on, the interests being entered in what appears to be the descending order of their priorities. In the typical case already mentioned, the interest of A the freeholder would come first, then that of B the lessee, then that of C the under-lessee, and so on. The order of priority would generally be settled by agreement, and in the event of dispute would be determined by process of law. . . .

The Department which has to do with the valuing of properties should, of course, be quite distinct from that which attends to tax-payments and registration.

#### *Applications for Payment*

The interests in each property having been thus entered in the order of their apparent priority, and the liability for the land-value tax having been apportioned between them, the call for the payment of the tax should be made by applying to the person or persons liable for payment of the tax or of their respective contributions to it.

#### *Procedure in case of Non-payment*

If any person so called upon fails to pay his share of the tax within a reasonable time, his name should be deleted from the Land-value Register, and the call for that share of the tax should be made to the person (if any) whose name stands next below; if he fails to pay within a reasonable time, his name also should be deleted, and the call should be made to the person (if any) whose name stands next below; and so on, in descending order. If all those thus applied to have failed to pay, the call should be made to the person (if any) whose name stands next above that of the original defaulter; and so on in ascending order. (The procedure is here stated in general terms to cover the most complicated case; in the great majority of cases the succession would be shorter). If all the parties on the Register fail to pay, all their names would be deleted, and the Commissioners of Inland Revenue should be entitled to enter themselves—in their corporate capacity—on the Register and to credit themselves with payment to themselves, receiving thereupon the same rights as any other payer.

### 4.—PROTECTION OF THE PAYER

In practice, there would hardly be any case in which the person applied to would fail to pay the tax, if the system embodied in the following rules were adopted. It would avoid unnecessary expenditure on collection, prevent the possibility of bad debts, and secure prompt payment by the right person. The rules would seldom have to be applied actually; their silent pressure would secure the desired result in almost every case. Tax-collection would be almost automatic.

#### *Right to hold the Land as against Defaulter*

Where any person has failed to make payment and any other person to whom the call has passed makes payment instead, the payer should be entitled to hold the land as against the defaulter—using that term to include both the original defaulter and any one else who has let the call go past him, either through not having his name on the Register or through failing to pay when applied to—until full repayment has been made to him; and, until full repayment has been made, the defaulter's claims against him for the payment of rent and the performance of any other obligation in respect of the property should be suspended.

#### *Applications for Subsequent Payments*

After the first payment by the payer of the tax due from the defaulter, any subsequent call for any further tax due from the defaulter (whose name would have been deleted from the Register) should be made direct to the payer, unless and until he lets the call go

past him so that his name also is deleted from the Register, or unless and until the defaulter makes full repayment and is reinstated on the Register.

#### *Meaning of "Full Repayment"*

For the purposes of full repayment, every payment made by the payer should be calculated as accumulating in his favour as against the defaulter at compound interest of 5 per cent—1s. in the £—per annum, apportionable as 1d. in the £ for a month or less period, until repayment is made or the right to make repayment has been extinguished by the time-limit.

#### *Time-limit for Repayment*

If full repayment is not made within a certain time—preferably not more than twelve years, which is the normal time-limit for actions for the recovery of land and rent under the Real Property Limitation Acts, 1833 and 1874—the defaulter's right to make repayment, and his consequent right to be reinstated on the Register, should be extinguished.

#### *Expenditure on Property by Payer*

If the payer makes any expenditure in connexion with the property and obtains a certificate from the Commissioners of Inland Revenue that such expenditure or any part of it was reasonably necessary in the interests of the property, the amount of the expenditure so certified should be entered on the Register and should be deemed to accumulate in favour of the payer as against the defaulter in the same way and under the same conditions as if it were a payment of the tax.

#### *Revival of Defaulter's Rights on Repayment*

If at any time within the time-limit the defaulter makes full repayment of the accumulated amount of all moneys due to the payer, his rights should revive and he should be entitled to obtain from the payer any rent which has accrued. But, as the delay in payment would have been due to his own default, he should not be entitled to claim any interest on the rent or to enforce any penalty for the delay. He should also be required, after making full repayment of the accumulated amount through the Registry, to give the payer some reasonable notice of his claim for the accrued rent (in so far as it exceeds the amount of his repayment) in order that the payer may be safeguarded from the inconvenience incidental to a sudden demand for the payment of what may be a substantial sum.

#### *Holding after Expiry of Lease*

If under these powers the payer, after the expiry of his lease, continues to hold the land as against any person whose share of the tax he has paid, his doing so should be regarded as the exercise of a statutory lien and should not render him liable for the payment of rent or the performance of any other condition of the lease during that subsequent period.

### 5—PROVISIONS AS TO REGISTRATION

#### *New Registrations*

After Registration has begun, any person claiming in good faith to be registered in respect of any interest in any property (whether that interest includes any land-value or not) should be entitled to be registered in respect of that property in the priority which he claims, provided that he has obtained the written consent of all the other persons whose names are on the Register in respect of

that property, or has established his claim by process of law. In almost all cases, new entries would be made by mutual consent; and where there is a dispute between the parties about their mutual rights to the land, the question would be brought to an issue.

#### *Postponed Registrations*

After the tax has commenced, any person already on the Register should be entitled to refuse consent to the registration in respect of the same property of any new applicant, either as not admitting his title or on the ground that he has evaded payment of the tax by postponing registration. If this objection is taken, the Commissioners should ascertain whether, if the applicant had been on the Register from the commencement of registration or the commencement of his interest (whichever be the later), he would have had to pay the whole or any part of the land-value tax; and if so what is the accumulated amount of the payments which he ought to have made. If any payments are thus found due from him, he should not be entitled to registration until he has paid into the Registry the full accumulated amount, which should afterwards be paid out by way of repayment to those who have been making the payments that the applicant should have made, any unclaimed balance going to the Treasury. The right to make repayment, and the consequent right to be entered or reinstated on the Register, should be subject to the same time-limit as in the other cases.

#### *Future Titles and Transfers*

In order to encourage the prompt registration of all titles and transfers (including mortgages and other incumbrances) made after the new system has begun, and to make the Land-value Register a reliable guide to them, provision should be made that in case of competition between them, they should have priority according to their respective dates of registration.

In Scotland this useful rule was applied to sasines (scisins) by an Act as early as 1693, c. 22, and was extended to long leases by the Registration of Leases (Scotland) Act, 1857, section 12, and to real burdens by the Conveyancing (Scotland) Act, 1874, section 30. In England it was incorporated in the Land Transfer Act, 1875, section 28. The present proposal would give it a more extended application.

#### *Registry to record all Tax Payments*

In order to obtain the full advantages of the system, all payments and repayments of the land-value tax should be made through the Registry and should be recorded there. This can be secured by providing:—

- (a) that calls for payment of the tax should be made only to persons whose names are on the Register;
- (b) that payments and repayments of the tax should be valid only when made through the Registry;
- (c) that payments and repayments of the tax should be receivable by the Registry only from persons whose names are on the Register—except that special provision should be made for the conditional acceptance of any payment and repayment which may be tendered as a preliminary step towards asserting a title or towards obtaining the entry or re-entry of a name on the Register.

#### *Inspection of Register*

The Register should be open for inspection by any person on payment of a small fee.



## 6—SPECIAL CASES

[This section deals with mortgages, trust-settlements, and other special cases.]

## 7—DEFINITION OF CAPITAL LAND-VALUE

The definition of "capital land-value" may be based on that of "full site value" in section 25 of the Finance (1909-10) Act, 1910, with the amendments proposed in clauses 1 and 2 of the Revenue Bill, 1914, and several other modifications. The definition might be in some such terms as these:—

"The expression 'capital land-value of a property' means the amount which the fee simple of the land might be expected to realise if sold at the time in the open market by a willing seller, free from incumbrances and from any burden, charge, or restriction (other than rates and taxes), but subject to any public right of way, or public right of user, or public easement, or any right of common, and apart from improvements as herein defined.

"The expression 'improvements' means—

(a) any buildings and any other structures (including fixed or attached machinery) on, in, or under the surface; and

(b) any growing timber, fruit trees, fruit bushes, growing crops, fruit on the land, and other things growing thereon (except grass or any natural herbage or any other natural growth on the land); and

(c) any ploughings, seeds, sowings, and tillages, or other things done on the land for the purpose of cropping or feeding the land in the ordinary course of husbandry; and

(d) any works of fencing, dry-diking, draining, reclaiming, embanking, levelling, and the like (including the making of such private roads as are maintained exclusively at private expense), in so far as these have been made within thirty years preceding the date of valuation.

"The 'capital land-value of a property' shall be deemed to include the value (if any) of the right to obtain any minerals therein, except in so far as that right has been severed from the other rights and is the subject of a separate valuation under the Finance (1909-10) Act, 1910."

## 8—GENERAL EFFECTS OF SCHEME

The adoption of this scheme for the taxation of land-values would secure the benefits of that reform, and would also have the following advantages. It would:—

- (1) obtain prompt payment from the right people;
- (2) reduce the cost of collection to a minimum;
- (3) prevent the possibility of bad debts;
- (4) bring about a general registration of titles;
- (5) suspend the titles of defaulters while they remain in default, and extinguish their titles if they remain in default beyond a certain time;
- (6) fortify the titles of the payers by means of their tax-payments;
- (7) constitute a complete record of tax-payments and a growingly complete record of effective titles;
- (8) make the ascertainment of title to land easy and cheap; and
- (9) show in whose hands the land of the country really is.

## 9—POSTSCRIPT

[This section contains certain references and acknowledgments].

## WHY WAR?

(Preface of Frederic C. Howe's Latest Book, WHY WAR. Published by Charles Scribner's Sons, New York.)

Modern War is the result of a combination of explosives much as a thunder-storm is the result of a combination of unusual atmospheric conditions. The spark may be ignited in Berlin, Petrograd, Vienna, or London, but the explosive combination is likely to be found in obscure portions of the world.

The cause of the present European war is not to be discovered in the White Book, the Yellow Book, or the Orange Book; the war did not originate in the capitals of Europe, even though the first overt acts were there committed. The war is not the result of patriotic uprisings on the part of the people, of the over-crowding of population, of any social unrest at home, or a national desire for overseas markets. This war is not the personal war of any ruler as were the wars of Frederick the Great or Napoleon, as were the wars of Bismarck fifty years ago. In its final causes it is not a war of aggression or defence, as were the recent wars of Germany, Austria, Italy, and France. When the history of the war is finally written these forces will be found to be of secondary importance. The real cause of the war is to be found far back of the summer of 1914; it is to be found in the new economic and financial forces set in motion in the closing years of the last century.

The present war and the wars of the past ten years are the result of endless conflicts and suspicions, of balked ambitions and fears, of diplomatic overreachings and injured dignity, of a thousand irritations that do not appear in the diplomatic correspondence. Present-day wars are primarily the result of the conflict of powerful economic interests radiating out from the capitals of Europe, which, with the foreign office behind them, have laid the whole world with explosives which only needed a spark to set all Europe aflame. Surplus wealth seeking privileges in foreign lands is the proximate cause of the war just as wealth seeking monopoly profits is the cause of the civil conflicts that have involved our cities and States. It is the struggle of high finance bent on the exploitation of weaker peoples that has turned Europe into a human slaughter-house and arrayed 400,000,000 peaceful people against one another in a death struggle.

When the story of the war comes to be written the origin will be found hidden in the diplomatic victories and resentments over Morocco and Turkey rather than in the murder of the Archduke Ferdinand; it will be found in the aggressions of British, French, and German financiers and concession seekers rather than in the ambitions of the Czar and Kaiser, it will be found in the struggle for the exploitation of weaker peoples, of whom no less than 140,000,000 together with 10,000,000 square miles of territory have fallen under the dominion of Great Britain, France, and Germany during the last thirty years.

These conflicts have been on a titanic scale. They have led to the ending of the liberties of free peoples, to colonies and protectorates, to the closed door, to the imprisonment of the Mediterranean, to the raising of obstacles and Gibaltars to freedom of trade and commerce. They have created a thousand rumours, suspicions, and hatreds, a great increase in armaments for the protection of private investments; they have given birth to diplomatic intrigues and demonstrations of force that have changed a conflict of private groups into a conflict of peoples.

Behind these private groups of financiers and concession seekers one finds the foreign office and diplomacy, the war lords and the ruling caste. Together they have made common cause with the munition makers and the trading classes. These classes own or control great portions of the press. They mould public opinion. They control political