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THE BUDGET LAND TAXES

BY
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THE BUDGET
AND THE
TAXATION OF LAND.

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J. M. FELLS, F.S.A.A.

THE Finance Bill sets out in considerable detail in Part I. which deals with duties on land values, the machinery by which it is proposed to assess and collect the portion of the increment value of landed property which for the future is to be nationalised, and the modes of levying the other additional charges on land-holders by means of the Reversion Duty and the duties on undeveloped land and minerals.

What is popularly known, in so far as it is incidental to the holding of land, as the "unearned increment" is, it will be noted, in the Bill refined into the term "increment value." The justice, equity or practicability of the proposals can best be judged by considering in broad outline on what it is proposed to levy the new duties, and how it is proposed to levy them.

THE TAXATION OF SITE VALUES.

Under the Bill, the present site value of land, or the purchase price of any land purchased after April 30th, 1889, if such purchase price be greater than the present site value, is to be taken as an original site value. In future, whenever land is sold, or leased, or passes by death, the difference between the original value and the then ascertained value is to be divided, one-fifth (one pound for every complete five pounds) to be taken by the Government and four-fifths to be retained by the owners. As land may be held by companies or associations, either corporate or incorporate, and consequently might not pass by sale or lease and cannot pass by death, it is provided that the first division between the Government and such holders shall take place on the 5th April, 1914. Afterwards fresh valuation and division shall be made every fifteenth year; but the

holders may, if they desire, pay the Government in 15 equal yearly instalments. No increment duty is payable when the increment is not more than 10 per cent., calculated on the last preceding transaction, and this applies to any number of transactions where each transaction shows a profit of less than 10 per cent. It is now also proposed that the same increment should not be taxed twice. Thus, if by various stages the selling price of some particular piece or portions of land fluctuates between £5,000 and £7,000, the increment duties will not in the aggregate be assessed on more than £2,000. Exemption from the increment tax is granted to owners of property below £500 in value. In connection with the sale from time to time of parts or portions of a property, which has been originally valued for site value as a whole, on the application at any time of any person entitled to fee simple or any interest in land, the Commissioners shall apportion or re-apportion the original site value of the land amongst such parts of the land as may be specified in the application in such proportions as they think just, and shall give a certificate of any apportionment or re-apportionment so made. The tax is to be a tax attaching to the property and not to proprietors, and returns have to be made as to all properties whether increment duty is chargeable or not. Agricultural land is not chargeable with increment duty.

THE REVERSION DUTY.

It is proposed by means of a Reversion Duty to obtain for the State participation to the extent of one-tenth (one pound for every ten pounds) in the benefit arising to lessors from the falling in or surrender of leases, other than of agricultural land, but reversions purchased before the 30th April, 1909, which expire within 40 years of the date of purchase, and leases, the original term of which does not exceed 21 years, are to be exempt from the operation of Reversion Duty. When a lease is determined before the expiration of the term originally agreed upon, and a fresh lease is granted which extends at least 21 years beyond the date on which the original lease would have expired, an allowance of $2\frac{1}{2}$ per cent. of the duty for every unexpired year of the original term is to be made in respect of the Reversion

Duty payable. Otherwise, on the determination of a lease, the benefit of the amount by which the total value of the land at the time of such determination exceeds the capital value at the original grant of the lease shall be chargeable with Reversion Duty, but if the lessor is not the freeholder, the reversion value with which he is chargeable shall be proportionately reduced. Where a reversion has been mortgaged before the 30th April, 1909, a mortgagee foreclosing shall not be liable to pay reversion duty unless the benefit accruing to him from such determination exceeds the amount payable under the mortgage.

THE DUTY ON UNDEVELOPED LAND.

The third duty is that on undeveloped land. Where the site value of land exceeds fifty pounds per acre, and the land has not been developed by being built upon, or being used *bona fide* for any business, trade, or industry other than agriculture, a duty called Undeveloped Land Duty shall be imposed at the rate of one halfpenny for every twenty shillings of such site value. Where the land having been developed becomes vacant or unoccupied, or ceases to be used for the purposes for which it has been developed, it shall after the expiration of one year be treated as undeveloped land for the purposes of this duty, and shall be so treated until it is again developed. Undeveloped Land Duty is not to be chargeable on the site value of parks, gardens or open spaces to which the public have right of access, nor is it chargeable on any land not exceeding one acre valued together with a dwelling house for the purposes of Inhabited House Duty, and where such land does not exceed two acres an allowance shall be made in respect of one acre. In the case of agricultural land which is over fifty pounds per acre in value, Undeveloped Land Duty shall not be charged so far as the site value of the land is due to the value of the land for agricultural purposes.

THE DUTY ON UNCOTTEN MINERALS.

The remaining duty, the Mineral Rights Duty, imposes a charge of one halfpenny for every twenty shillings of the capital value of minerals. Such capital value is to be taken to

be the value adopted as the original capital value of those minerals, or their value as ascertained by subsequent periodical valuation. From the duty thus payable such allowance may be made as shall be thought just in respect of any minerals gotten since the date the value was ascertained.

None of these four duties is chargeable in respect of any land or interest in land held by a rating authority, nor on any land or interest in land held and used by any person or body of persons for public or charitable purposes, but Increment Value Duty is to be paid when the land is sold, or ceases to be occupied or used for such purposes. The undertakings of municipal and other authorities have hitherto been subject to Imperial taxation, and the exemption from taxation in regard to their lands or interests in land will place them in a preferential position in the increasing number of cases in which the local authorities are in competition with ratepayers.

THE VALUATION.

When the Finance Bill becomes an Act of Parliament the first step towards raising the revenue receivable under it is that the Commissioners of Inland Revenue shall cause all owners of land to send in returns, in such form and giving such particulars as the Commissioners may require, declaring the total value and the site value of their lands as estimated by the owners, the value being declared separately of each piece under separate occupation. The total value is to include every element of value in connection with the land and what is on it, or under it, save in the case of minerals for which a separate return is required. The site value is to be obtained by the deduction from the total value of any part of the value which is proved to be attributable to buildings or structures, or goodwill, or any other matter which is personal to the occupier or other person interested at the time in the land. In the case of agricultural land there will be deducted the value which is due solely to its capacity for agricultural purposes, and also the value which is proved to the satisfaction of the Commissioners to be due to works of a permanent character executed by or on behalf of any person interested in the land. The Chancellor of the Exchequer, since the introduc-

tion of the Bill, has also agreed that capital paid on Land Tax redemption shall form a deduction from the site value. He has further agreed that, when the increment value is not 10 per cent. in excess of the site value, increment duty shall not be charged. The Government now propose that the State should bear the cost of valuation.

APPEALS ON VALUATION.

The Commissioners are to cause all returns made under the Act to be examined, but the clause containing this provision does not say by whom such examination is to be made, and if no objection is taken to the return the values declared shall be taken to be the original total value and the original site value. If the Commissioners consider that the return is incorrect, they are to communicate with the owner with a view to its amendment, and if the amendment is made in a manner satisfactory to the Commissioners, the amended values shall be taken as the original and site values. If no return is made, or the owner refuses to amend his return in a manner satisfactory to the Commissioners, the values shall be determined by the Commissioners. Any person aggrieved by the determination of the Commissioners as to values may appeal within such time and in such manner as may be provided by rules made by the Treasury. All appeals are to come before a Referee appointed by the Treasury, and the decision of the Referee is to be final. The Referee is also to have power to order by whom and in what manner the costs of the appeal are to be paid.

THE TAXATION OF CAPITAL.

These are the prominent features of what Lord Rosebery has described as "a social and political revolution of the first magnitude." The payment of national expenditure by the taxation of capital must lessen national wealth and the income arising from the use of that wealth for productive purposes. The *Westminster Gazette* has pointed out that the income assessed for Income Tax purposes amounts to about £850,000,000 yearly, and that "the annual savings of the country, by which we mean the amount available for investment or for putting back into business after the necessaries and luxuries of life have been

provided for, are probably not less than £400,000,000 a year." The additional income arising from this increasing investment of capital is a fair and proper subject of taxation, but the taxation of capital itself is fraught with grave economic dangers, and it is a question whether the heavy death duties which have ruled in recent years, have not seriously diminished the amount of capital which would, under other conditions, have been applied to reproductive purposes. Sir Felix Schuster in an article in the July number of the *Nineteenth Century* expresses the opinion that the death duties are economically unsound as a form of taxation, and provision against them is so costly that it is not made; and that consequently they lead to a break up of estates and to the withdrawal of capital from business at critical moments, and urges "If we are committed to this form of taxation, let it be limited rather than extended."

These duties already tend towards a reduction of the capital from which they are derived, and ultimately they must be for the State a declining source of revenue, while for the contributor they imply diminished power to carry out his duties to himself, his successors, and to the State.

The Finance Bill recognises that some land may not have any increment value, in providing that the increment value of any land shall be deemed to be the amount (if any) by which the site value of the land, on the occasion on which increased value becomes due, exceeds the original site value of the land. It is not, however, proposed that the State should in any way participate in or bear part of the decreased value of any land.

THE DECREASE IN LAND VALUES.

Land values rise or fall as do the values of other commodities, from a number of causes. Professor Alfred Marshall has pointed out that agricultural (money) rent of England doubled between 1795 and 1815, and then fell by a third till 1822, that since then it has been alternately rising and falling, that it was in 1905 about 45 to 50 millions as against 50 to 55 millions in 1873, when it was at its highest. In 1898 the Royal Commission on Agriculture reported that they estimated the decrease in the capital value of land in the whole of the United Kingdom at 100 millions sterling. Such decreases in

aggregate values are not of course inconsistent with great increases in value in certain cases. In relation to the decrement of land, it is to be remembered that the valuation has to be made of each piece in separate occupation, and that the Bill gives no power to place the losses on one plot against the gains on another. In practice it often happens that for trade or other purposes some portions of land are sold or leased on terms which diminish the realisable or letting value of the remainder. Is it equitable that the State should participate in the gains, but should bear no part whatever in the losses? It is the defect of the Finance Bill that not being based on either of the alternative principles of private or national ownership of land, it compounds with private ownership by leaving it with four-fifths of its gains in cases where gains are made, and with the whole of its losses where losses are made, and with national ownership by giving it one-fifth of the gains.

THE PRIME MINISTER AND INCOME TAX.

The Prime Minister, on June 24th, at the Holborn Restaurant, forgetting for the moment the essential difference between taxation on capital and taxation on income, said, "As regards the second argument, based on what is called decrement, has anyone ever heard of any system of taxation based upon these lines? Take income tax. You tax a man upon his profits. If he does not make any profits there is nothing to tax. Have we ever heard the claim seriously put forward on the part of an income tax payer who has done well in years gone by, that the State should compensate him when he is carrying on trade at a loss and refund what he had paid before? It is a childish argument. It has no basis of any kind, either in reason or experience." Even if taxation of capital and taxation of income were the same in principle, the Prime Minister has forgotten that profits or gains liable to income tax are assessed on the basis of a statutory income: that is, that a three years' average is taken, and that by these means the losses of any year enter with the profits and gains of other years into the calculation on which the three years' average is based. Further by section 23 of 53 and 54 Victoria cap. 8, it is pro-

vided that where any person sustains a loss in any business, profession or vocation during the year of assessment upon giving notice to the Surveyor of Taxes within six months after the year of assessment, he can apply to the Commissioners for an adjustment of his liability by reference to the loss and to the aggregate amount of his income.

A payer of income tax is assessed on his income, but the increases or decreases in his capital account by fortunate or unfortunate speculations or investments in railways, industrial undertakings, or South African or other mines do not enter into the assessment made on him for income tax purposes. It is strange forgetfulness on the part of a Prime Minister, who little more than a year ago was Chancellor of the Exchequer, to ignore principles upon which income tax assessments are based. A leader writer in the *Daily News* has emphasised this error in stating that if a man invested in railway or other securities and their value rose, he would pay more on income tax! Here the mental confusion between income and capital is even more apparent. If the income from investments rises, more tax is paid, as is the case also with landlords when their rentals increase, but the increment of capital value is not taxed, although it is now proposed to tax it in the case of land.

INDIVIDUAL INITIATIVE AND ENTERPRISE.

The Prime Minister also has described the increment duties as "taxes upon the communal value which has been added to land by the exertions of the State." In the past, the part the State has played in developing the resources of the country has been but small, as compared with the initiative and enterprise of individuals. It has been well and forcibly pointed out by Mr. J. H. Balfour Browne, K.C., that, "Almost all wealth is "fortuitous. The land itself, the air, the sunshine, the workman himself, are all the gifts of a bountiful nature. But even "when man has intervened and produced an article which has "value in exchange, the value in almost every case is an un- "earned value. If he has laboured for weeks and produced "something that no one wants he has produced no value. . . . "Increment is a piece of good fortune. . . . Take the farmer's

“wealth on the labouring wain in the golden September, or the bulging turnips with their feathered heads in the crisp October. Was it labour that brought about the bursting barn, or the sweet winter food for the sheep and cattle? Not at all. It was the rich rains, the opulent sunshine.”

INCREMENT VALUE.

The phrases “unearned increment” or “increment value” are not applicable to land only, but to all other kinds of property. Over a period of time, “increment value” may not mean any increase in exchange value, but merely that increase in money value which arises from among other causes the continually increasing production of gold. In the comparison of the land and other values of to-day with those of preceding centuries this has always to be borne in mind. Mr. Pigou, Professor of Economics at Cambridge, in a recent letter to the *Times*, whilst defending the tax as one on “windfalls” which whatever their origin, or from whatever class of property they arise, are apparently in his opinion good objects for taxation, recognises that to be equitable the tax should be adjusted to the appreciation or depreciation of the precious metals by means of the index numbers. This would, in practice, present many difficulties. But that seems to be inherent in any system of taxing capital. The Premier has claimed Professor Pigou as a supporter of the new taxes, but the Government by “increment value” and Professor Pigou by “windfall” do not mean the same thing. Professor Pigou in a recent letter to the *Westminster Gazette*, points out that unless interest, expectancy, and variation in gold value are allowed for, much more than he means by “windfall” will be taxed.

Another element of increased or unearned value is to be found in the multiplication of human wants. It is to this element of value that the Prime Minister presumably refers when he stated: “There is an element of unearned value in other forms of property outside land; that is an argument not against taking the unearned value when you find it there in the shape of land, but in favour of taking it in other cases also.” This criticism the Prime Minister considered was a suggestion to

the Chancellor of the Exchequer which might possibly fructify in time to come. As Lord Rothschild significantly said at the great protest meeting against the Budget in the City of London, on 23rd June, 1909, "Mr. Lloyd George and His Majesty's Ministers wish to establish the principles of Socialism and collectivism; and if they were to succeed in land, there is no reason why they should not succeed in every other kind of property." Until quite recently the proposals in connection with land values had been for the additional rating of land for local purposes, but in introducing the Budget, the Chancellor of the Exchequer made a departure and proposed the taxation of land values. The tax being a tax on a special class of property, its incidence for all time will fall on the holder at the time the tax is imposed, and will diminish the capital value of that property relatively to the capital values of all other classes of property.

LOCAL AUTHORITIES AND THE LAND TAXES.

Since the Finance Bill was introduced the Government have announced that the amount raised from the Land Duties and Taxes will be divided between the Imperial and the Local Authorities. The aid of the local authorities will presumably be sought in connection with the valuations of property. A deputation from the Association of Municipal Corporations has pointed out to the Chancellor that in their opinion his proposals did not give a sufficient share of the proposed land taxes to the local authorities, and that it was in a large measure to the expenditure of the local authorities that increment value was due, and Mr. Harwood Banner, M.P., who introduced the deputation, stated that the Imperial Exchequer and the local authorities were rivals preying upon the public, and that they should not, in addition, prey upon each other. Mr. Lloyd George replied that he had budgeted for a very considerable surplus next year, and it was the intention of the Government then to make some progress with the readjustment of local and Imperial finance.

It does not seem to have occurred to either the Chancellor of the Exchequer or to the Association of Municipal

Corporations that logically the adjustment should have been discussed in principle before the fresh taxation was imposed, and that heretofore the Budget has been a Budget to provide for expenditure and not to manufacture a surplus. Valuations must necessarily be a long and expensive process, great divergence of view will naturally become manifest, and much employment will doubtless be afforded in connection therewith to surveyors, solicitors, valuers, accountants and others, to see in their respective spheres that their clients bear as small a proportion as possible of the burden of the new taxation.

EXPENSE OUT OF PROPORTION TO REVENUE.

The decisions of the Referees, of whom any number may be appointed, are to be final, but a Referee may, if he thinks fit, state a question in the form of a special case for the opinion of the High Court. The constitution and working of these proposed new Courts will no doubt be carefully scrutinised, especially as it was originally intended that no appeal should lie from them, and their decisions year in year out will affect the incomes and therefore the daily lives of many taxpayers. The Chancellor of the Exchequer has, however, as a result of discussion in the House of Commons, agreed that some sort of appeal shall be allowed, and to introduce clauses giving effect to this promise. The expense of the administration and collection of the new revenues will, it may safely be said, be very high, and the additional revenue that will accrue to the State from these taxes will be considerably less than the amount extracted from the pockets of the taxpayers.

The same considerations and objections apply in the main to Reversion Duty and the Duty on undeveloped land. Their probable effects upon the growth of Garden Cities or Garden Suburbs is not yet clear, owing to the vagueness and ambiguity of some of the clauses of the Bill. Their effects upon Land and Building Companies and upon commerce in land also require grave and careful consideration. The tax of a halfpenny in the £ on the capital value is in effect an income tax of about a shilling in the £ on an income which the owner is not obtaining.

The tax is a tax on land which will sooner or later pay the increment duty. It is charged because it is not sold, and it is charged when it is sold. The development of land, when such development is brought about merely to avoid taxation is a non-economic development prejudicial to the ultimate interests of the community.

A TAX ON POSTERITY.

In regard to the duty on ungotten minerals, even the Chancellor of the Exchequer himself does not seem clear as to what he is going to tax, or the machinery by which the taxation will be imposed. The right to raise minerals is often granted by the lease of extended areas of mineral lands for long periods, the royalties payable being often a minimum amount, with additional royalties at an agreed rate per ton or a proportionate part of the selling price. How to value justly these minerals, which may not be gotten for twenty or thirty years, is a problem which would rack the most astute intellect. The imposition of the tax would be the imposition for the first time of an annual tax on capital. It would bear with special hardship on the owners of capital which could not be realised for years to come, and even if allowance was made for this and the assessment made on the basis of present value of minerals, the estimate must be purely guess-work.

The tax, if it were practicable, would in effect be a tax on posterity, for it would over a series of years tend to equal or become greater than the royalty itself, and its eventual incidence would be borne by the consumer of future years. The owner of minerals who leaves them or some portion of them for use at a future time is doing some service and not disservice to future generations.

Sir Charles Dilke has recently stated that it is an open secret that, as a result of the consideration of the practical difficulties that would arise under the mineral rights duty, it will be withdrawn and the value of the minerals included in the valuation of the land.

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