Lloyd George's Land Taxes

From a paper by the late Sir Edgar Harper, F.S.I., former Chief Valuer to the Board of Inland Revenue presented at the International Conference on Land-Value Taxation in Edinburgh, 1929.

NO Government measure has occupied so great a proportion of the time of Parliament within living memory. Probably no measure ever occupied anything like the same length of time in its passage through two Parliaments.

It contained eight parts and, when passed, 96 sections and six schedules. But the battle raged most fiercely over Part I, which included 42 sections and set up four new duties, viz.: Increment Value Duty, Reversion Duty, Undeveloped Land Duty and Mineral Rights Duty. The other seven parts do not concern us, except that section 60 decreed an amended basis for the valuation of real property and leaseholds passing on death—"the market price at the time of the death of the deceased." This definition forms a valuable precedent for the basis to be adopted in arriving at land value for the purpose of taxation hereafter.

But the valuation provisions of Part I did not follow the simple definition of market value used in section 60 for Estate Duty. They set up five different values which had to be determined for each hereditament: Gross Value, Full Site Value, Total Value, Assessable Site Value and the value of the land for agricultural purposes. These various values and their definitions were presumably devised as bases for calculating the duties—miscalled Land Value Duties—set up by the Act. But these duties and definitions of value were all most unnecessarily complicated.

NEEDLESSLY COMPLICATED

A good idea of the cumbrous and confusing methods of the draughtsman of the Act may be obtained from the fact that he took 61 words to define "Gross Value," 105 words to define "Full Site Value," 173 words to define "Total Value" and no less than 472 words to define "Assessable Site Value." One need only compare these definitions with the words "the market price at the time of the death of the deceased," employed to define the Principal Value of Landed Estate for Estate Duty, in section 60 of the same Act, in order to realise the extent of the complications unnecessarily introduced into the definitions of land value in section 25. These complications were the cause of the difficulties experienced in working the Act, and of its ultimate failure.

It must not be forgotten that, in consequence of an undertaking unnecessarily given during the passage of the measure through Parliament, the Valuation was never open to public inspection, and the values had to be regarded as confidential between the Crown and each individual owner. This was in striking contrast to the valuations made for rating purposes, these being open to inspection by all ratepayers in the same parish. Every ratepayer, under the existing law, is entitled to see that his fellow ratepayers are fairly and equitably assessed; and it is difficult to understand why owners of land should have been exempted from any similar procedure.

Nor were all the duties correctly described by the term Land Value Duties. Not one of them was a charge upon the whole land value of the property subject to the duty.

Increment Value Duty was 20 per cent of the difference between the Assessable Site Value as first determined and the Assessable Site Value at the date of a sale or death.

Reversion Duty was 10 per cent of the difference between the Total Value at the expiration of a lease and the total value at the grant thereof. As this difference is almost invariably due in the main to the erection of a building, Reversion Duty was obviously incorrectly described as a duty on land value.

Undeveloped Land Duty was a halfpenny in the pound upon the Assessable Site Value of land not developed by the erection of dwelling houses or of buildings for the purposes of any business, trade or industry other than agriculture (not including glasshouses or greenhouses), or not otherwise used bona fide for any business, trade or industry other than agriculture. But where the owner had incurred expenditure on roads or sewers, one acre of his land was considered as developed for every hundred pounds of such expenditure, and therefore exempt from the duty.

Public parks, gardens and open spaces were exempt from Undeveloped Land Duty; also woodlands, parks, gardens or open spaces to which reasonable access was allowed to the public or the inhabitants of the locality; and land bona fide used for the purpose of games or other recreation.

This duty was payable annually.

Mineral Rights Duty is still charged. [1929]. It is calculated at a shilling in the pound on the rental value of all rights to work minerals and of all mineral wayleaves. This duty, also, is not a duty on land value, but is a proportion of the value of the coal brought to bank. It is a charge upon production, pure and simple.

THE REVERSE OF THE TRUTH

From this brief description it becomes clear that not one of these miscalled "land value duties" in any way resembles the tax on the unimproved value of land advocated by Henry George. Therefore to say—as our more unscrupulous opponents do—that the Taxation of Land Values has been tried in Britain and has failed, is not only untrue, it is the reverse of the truth!

By the Finance Act 1920 (section 57) the duties imposed by Part I of the Act of 1910 (except Mineral Rights Duty) were repealed, and the obligation to complete the

valuation of all land in the United Kingdom ceased. Nearly all the valuations had been made, but large numbers of them were subject to objections and appeals, and these had not become final and binding when the Act of 1920 was passed. The records of all the valuations made are still preserved in the offices of the Inland Revenue Department.

The Increment Value was more productive of revenue than the Reversion Duty and the Undeveloped Land Duty. Had it remained in force down to the present time it would have saved the Chancellor of the Exchequer many an anxious hour, for its yield must have increased materially every year. And I have no doubt the poundage of Income Tax might have been reduced considerably if that duty had remained in force. If a tax on such part of the increase in land values as changes hands could have such an effect, what may we not expect from a straight tax on the unimproved value of all land?

ERRORS SUMMARISED

The errors of the Act of 1910 may therefore be thus summarised :—

1. Reversion Duty and Mineral Rights Duty were not taxes upon land values.

2. Increment Value Duty was a charge upon only a part (usually a minor part) of the land value of a hereditament and it was levied at irregular intervals determined by the accident of death or sale.

3. Undeveloped Land Duty was a ridiculously small tax and was subject to so many deductions and allowances that it was extremely difficult to collect, and almost impossible for taxpayers to understand.

4. The five different values of land prescribed by the Act were an altogether needless complication. It would have been far simpler—and more accurate—to arrive at the unimproved land land, as valuers always can, by comparison with the sales and lettings of similar land in the vicinity. To begin with an inclusive figure called Gross Value, and proceed by a series of deductions, is seldom likely to produce true site value. Fortunately the expert valuers employed by the Board of Inland Revenue were able to check the result of the deductions they had to make under the Act by their practical knowledge of site values in the area with which each of them had to deal.

5. The cost of the original Valuations, of which so much has been made by the critics, was largely due to the unnecessary complications introduced by the Act—not at all to delay or incapacity on the part of official valuers.

But the unscrupulous methods of controversy adopted by these critics represented the cost of the original valuation as being the total cost of the Valuation Department. The work of that Department included also the valuation of all real property and leaseholds passing on death for Estate Duty purposes, and the valuation and purchase of property required for State and local purposes. The whole of the sites purchased for housing since the war were dealt with by that Department ; and in this connection, it was stated by the Ministry of Health that the Department had saved over a million of public money in reducing prices agreed upon before its valuers were called in. Moreover the " occasion " valuations—which had to be made whenever a sale took place or a lease expired, whether duty was payable or not—were a heavy addition to the work of the Department but formed no part of the cost of the original valuation. That cost, as a matter of fact, has never been ascertained.

In my evidence before the Select Committee on the Land Value Duties I estimated that cost at a little over two millions, which represents only 3s. 9¾d. per hereditament, and only 8s. 6d. per acre. Yet even these moderate figures could have been reduced if the valuation had been limited to land, instead of including—as it did —all the buildings, machinery and improvements of all kinds made upon land.

6. The provisions for objections and appeals by owners against the valuations made by the District Valuers were unnecessarily cumbrous, as notices of objection had to be served upon the Commissioners of Inland Revenue. If the decision of the Commissioners was not satisfactory to the owner he was empowered to appeal against it ; and a panel of expert surveyors was set up from whom a referee was selected to hear and determine the appeal. From the referee's decision it was possible for either side to appeal to the High Court on points of law. This procedure caused great delay in the final settlement of the valuations.

The errors contained in Part I of the Act of 1909-10 were almost wholly responsible for the altogether unnecessary complications introduced, both in calculating the Site Value and in arriving at the amount of duty to be collected upon it. But no Site Value was ever arrived at in the cases of Reversion Duty and Mineral Rights Duty. Yet this was the measure always referred to by our opponents as the plan for the taxation of land values which had been tried and failed. Those who still commit themselves to this assertion must either be ignorant of the facts, or else they make statements which they must know are incorrect.

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In pointing out—and briefly explaining—the errors of the Act 1909-10, I have already foreshadowed the true method of land-value taxation, and its necessary basis. It is to treat all land apart from the improvements that have been made upon it, and to estimate the value of each separate plot on that basis.

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