

Land Valuation in Denmark

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HISTORY

In 1903 a sweeping amendment of the Danish taxation system took place. The old land taxes for State and local purposes, which had been assessed on an antiquated basis were changed into a property tax assessed upon the selling value of real estate, *i.e.*, of land including buildings and improvements. At the same time, a substantial portion of the taxation for State purposes formerly resting on fixed property was replaced by income tax and by the annually levied tax on the capital value of individual possessions—the “fortune” or wealth tax.

Since 1903 there has been a general periodic valuation of real estate. The reform, so called, of 1903 at once caused protest against taxation levied on the value of buildings and improvements which was particularly felt in the case of properties with but a small extent of land attached to them. Attempts were made to lighten the taxation on built-upon or cultivated smaller holdings by giving various tax-free abatements, but in spite of repeated modification of such exemptions no satisfying results were attained.

The unhappy experience of this change in taxation gave support to the opinion that the property tax should be wholly or partly replaced by taxation on the value of land alone, in sympathy with the ideas held by the advocates of the Henry George policy.

TRIAL VALUATIONS

The first practical step in the direction of Land Value Taxation was taken through trial valuations in 1911 and 1912, the object of which was partly to test the possibility of a separate assessment of the land and partly to gain experience in regard to the principles of valuation and the practical methods which should be followed in making the valuation.

A few local areas were selected as typical and there a valuation was made showing the land value of each piece of land apart from improvements. The work was done along carefully planned lines under the direction of the Central Valuation Board (the land valuation department) and with the co-operation of experts on the subject, who helped in planning and carrying out the work.

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The next step was the enactment in 1915 of a valuation covering the whole country whereby the land value of every piece of land was ascertained; but this valuation was made again as an experiment and was not put to any practical use as a basis for taxation. It was a preliminary experiment; nevertheless it was put to use for other purposes, including, for example, the war measure in 1917 when farms were assessed for the compulsory corn delivery. In 1920 a fresh valuation was enacted which was intended to be used eventually as a basis for taxation.

A NATIONAL LAND VALUE TAX

After this new valuation was completed, and results had been compiled, an Act was passed in 1922 which gave effect to a small national land value tax the rate of which was no more than $1\frac{1}{2}$ per thousand of the capital value, equivalent in English phrase to one-third of a penny in the pound. This Act of 1922 made periodic valuation of land necessary, and firmly established that institution in Danish law and practice.

At the same time, with the experience that had been gained, the organization of the Valuation administration was altered in certain details, particularly to ensure greater co-ordination and better proportion in the assessments over the whole country.

LOCAL RATING OF LAND VALUES

There followed the land valuation of 1924 and the experience of the small national tax on land values (for State purposes) led to the Act of 1926 by which a considerable part of local taxation was levied on land values. In rural districts the rate of this local taxation on land values varies from 6 to 35 per thousand being about 20 per thousand on the average. In Copenhagen the rate is $7\frac{1}{2}$ per thousand.

Since then valuations have been made as on 1st January, 1927 and 1932 and a new valuation is to be undertaken before the end of 1936, valuations now being made every fifth year.

In 1933 the greater part of county taxation, which is levied only on real estate (there being no local income tax for county purposes) was transferred to the value of land apart from improvements. At the same time the locally adoptive and optional tax on increases in land value was replaced by a generally leviable State tax of more than double the amount on increases in land value, with the assessment of 1932 as the datum line. The rate of this tax is 2 per cent per annum of the increase that has taken place at the next and succeeding valuations—although with considerable tax-free deductions. The yield of this special taxation is divided equally between the Treasury and the local authority.

It will be seen from this that the importance of the land valuation in its use for revenue purposes has been increased step by step. Moreover, in other connections, the land valuation, along with the valuation of land and buildings

taken together, has been gradually and in increasing degree accepted as a standard for public purposes and for contracts between individuals. As a result the demand for good valuation has also become keener, but to the same extent the conditions for satisfying this demand have been improved. It is not too much to say that the first requirement of a good valuation is that it has economic importance: that both owners and those who take part in making the valuation are associated in the work and with sufficient interest. But it also goes without saying that these greater demands for efficiency, if they are to be satisfied, require that the valuation authorities be equipped with the information and the technical aids that are essential for doing the work of valuation well.

THE BASIS OF VALUATION

The system and procedure adopted in ascertaining the land value were carefully worked out in connection with the first trial valuations made in 1911 and 1912, and have not since been altered to any considerable extent. The assessment is the capital value of the land. In Denmark land is generally owned by the occupiers. Less than 10 per cent of the agricultural land is tenanted, the owners being either the Church or private landowners. Since tenancy is exceptional, it was not thought advisable to assess the annual value. Annual value will, perhaps, be found the better basis in countries where the landlord and tenant system is prevalent and possibly also when we approach the point at which the greater part of economic rent is taken in taxation for public purposes.

The capital value is defined as the selling value. It is therefore not the capitalization of the full economic rent; only that part of the land value is assessed which is left in the hands of landowners because it is not taken in taxation for public purposes. In other words, the capital value of what is left in private hands is the same thing as the market value of the land.

But it is to be observed that in determining the value, no account is taken of the new tax on increased values (the land is valued as if this charge did not exist). This tax therefore, which in the nature of the case may fall very unequally on pieces of land which otherwise have the same value, will not cause a corresponding inequality in the valuations, a thing that would have been very unfortunate in the making of the valuation. While account is taken of all public burdens and covenants (with the one exception of the tax on increased values) account is taken of private burdens or covenants which affect a property only to the extent that these obligations arise in connection with an adjoining property, where the corresponding benefit is taken into consideration in fixing the assessment.

As the rate of local taxation on land values varies considerably from place to place, there is a strong argument for assessing, not the market value, but the market value plus the capitalization of the rates and taxes that are levied on land value, that is—the capital value assuming that the land in question is free from any rates or taxes imposed on the land value. Under present conditions, it may and does happen that land in different parishes, although it does not differ materially in other respects, has to be assessed higher or lower according as the local taxes in the parishes are less or more.

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TIME LIMIT FOR CERTAIN IMPROVEMENTS

The assessment includes with the land value the improvements that merge in the land, such as the draining, levelling, irrigation work, etc. (in the case of agricultural land) and expenditure for streets, sewers, etc. (in the case of urban land); but the owner in every case has a right to claim a tax-free deduction of a sum representing the cost of the improvements provided that the improvements have been made within 30 years preceding the date of the valuation and provided that the cost has not been recouped in the increased return due to the improvements.

In the cases where the expenditure cannot be regarded as having been reimbursed by the increased return in the course of the 30 years, provision was made in the new law for the tax on increased values to give opportunity, on application to the Finance Ministry, for allowing an extension of the exemption period.

This allowance of the tax-free deduction may never, of course, exceed the added value given to the land by the improvements at the time of valuation. No allowance is ordinarily given unless the owner puts forward his claim to it; and if the owner does not claim the allowance on the date of the first valuation after the improvement is made, he has no legal right to claim the allowance at the date of a later valuation. The valuation authorities, however, have the right to grant him allowance in any case if they find special reason for it.

URBAN, AGRICULTURAL AND OTHER LAND

Further, the law provides special rules with regard to (1) Agricultural Land (2) Woodland and (3) Other Lands and Tenements. But it is to be observed that agricultural land includes only land the best use of which is for agricultural purposes. Where land has a higher value than an agricultural value, it is not to be valued as agricultural land even though for the time being it is used for agriculture. There is a corresponding provision with regard to woodland, except where a legal covenant obtains that the woods must be preserved.

It is provided that all agricultural land is assessed per hectare on its selling value on the assumption that it belongs to a medium-sized farm. This provision is made to avoid assessing the land of small holdings at the enhanced price which generally has to be paid when land is bought for the purpose of a small holding. The price of such land in the case of small holdings established with the support of the State has generally been higher per acre for land without any buildings than the market price of land (with buildings upon it), when ordinary farms are sold in the open market. These enhanced prices for small holdings ought not to be taken as the basis for land value taxation, even if they do to some extent correspond to the actual market price of land with buildings thereon which is used for or destined for small holdings.

Otherwise the rules, taken all in all, direct that special features of the respective property to which the land belongs shall not affect the assessment of the value per unit of area—such as, the size of the land, the shape of its various lots of fields and their situation with respect to one another (their distance apart, whether close or far) or the position of the buildings on the land.

SPECIAL PROVISIONS FOR AGRICULTURAL LAND

Further, the law provides that the land shall be assessed as if being in an average state of cultivation. This provision implies that the actual state of cultivation does not determine the assessment. The valuer is required to concern himself only with the natural qualities of the land and its situation. Under these rules also, the question of giving tax-free abatement for improvements in cultivation does not arise, since such improvement does not increase the assessment. But this allowance is valid where land has been reclaimed or where the character of the land for agricultural use has been altered; *e.g.*, where meadow or bog (by draining) has been converted into arable land, or where developments at the owner's cost have taken place outside the property which increase its land value. In all cases where the assessment is increased, because of undertakings at the owner's cost, a claim can be made in respect of the value of cultivation improvements made on the property so affected.

The rule that agricultural land is to be assessed as if being in an average state of cultivation does not mean that the annual work and outlay incurred on the land in ordinary farming is considered a part of the land value. For purposes of valuation the land is assessed in the condition it would be in immediately after the year's crop has been removed and before the preparations for the next crop have begun. Even so, a considerable part of the value is due to cultivation which may be removed or exhausted by farming or otherwise impaired. Nevertheless, this part of the value attaching to the land is generally the work of generations; in most cases it is a sort of by-product in ordinary farming which has not been taken into consideration by the farmer himself and it cannot and ought not to be separated from the value of the bare land. Possibly some people would prefer to treat such values in the same way as improvements that merge in the land. In a country where a great part of the land is not under proper cultivation something might be said for this point of view; but in an old country like Denmark with its land well cultivated such a method of dealing with the matter would in special cases bring about results that could not be defended. It would mean that a man who neglected his land would have his taxation reduced; and it would also happen, although not so often, that a man who cultivated his land better than most other farmers, would have to bear the heaviest taxation. Clearly that would be unjust in both cases. In my opinion, it is better for taxation purposes and more convenient from the valuation point of view, to assess all agricultural land as if it were in a normal state of cultivation.

Finally, it is to be noted that the law provides that where the land belonging to the property shows material differences, part by part, in respect of quality or advantage of situation, each such part is to be assessed as a single part. The land value of each must be specified. It is not sufficient to give the land value of the property as a whole.

THE VALUING OF WOODLANDS

Woodland which is dedicated by law to be used as woodland or which can be most profitably used for timber-growing is assessed at the value it has

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for woodland in good condition of forestry. The Act gives no distinct answer to the question whether or to what extent growing timber should be considered as part of the land value, a question that has raised much discussion. It has been decided that the value of land is taken to be 60 per cent of the total value of a forest in a normal state of forest-cultivation, *i.e.*, a forest in such a state that normal growth balances normal felling. (Sixty per cent is also the average ratio of land value to total value on a medium sized farm.) This is a compromise and I am not defending it. I am of the opinion that in the case of forests cultivated for timber, the growing timber necessary to keep up the profit-earning capacity of the forest should be considered land value, but that a deduction for improvements under the rules of the Act should be allowed covering the expenditure (including interest) which has been necessary to bring the forest to its profit-earning capacity. This would mean that in the case of natural forests the selling value of the forest with growing timber would be taxed as land value; but in the case of new forest plantations the greater part of the value of the growing timber would be exempt from taxation.

OTHER LAND—URBAN, ETC.

With regard to any property other than agricultural and woodland, the value is to be appraised at the amount at which it may be estimated to sell according to the current prices ruling for the class of property in question, without buildings or improvements, if sold for the purpose for which it is best adapted, all conditions being taken into consideration, in respect to which regard must be had to the shape and size of the property as well as to the possibility of its being sub-divided or being aggregated with adjoining properties. Here we have a contrast with the assessment of agricultural land where the shape or size of the property in question has no influence upon the assessment, which is based on the value per unit of area.

This difference is the result of the experiences gained from the first trial valuations where it was noticed that the assessment especially of building land which should determine the value on the assumption of rational plotting for sub-division (although with the same street plan) might result in the fixing of values which corresponded neither to the possibilities of the use of the land nor to the sum which might be obtained, in view of the actual conditions of building development in the neighbourhood.

Mining land and water power, which in Denmark is of very slight importance, is valued at its selling-value whether it is worked or not.

HOW THE WORK IS ORGANIZED AND ADMINISTERED

The fundamental principle of the organization is democracy. In every town or parish, or district of a town or a parish, two valuers are elected by the town council or parish council by proportional representation. The valuers are elected for a period of six years. These valuers, guided by a chairman who is nominated by the Government and has under his control a number (generally 10 to 15) of local valuation districts, form a committee which within their district, has to make the valuations and the valuation

maps. When the valuation is completed, the valuation roll is open for public inspection and the owners as well as the parish or town council have a right to make appeals against the valuation. Appeals are decided by a county valuation board consisting of all the chairmen of the local valuation committees in the county. The owners have the right to appeal against the assessment of the property of others as well as of their own.

The county board not only has to consider appeals but in general has to revise and correct the assessments of the local valuation committees. All decisions and alterations effected by the county valuation board may be made the subject of appeal to the Central Valuation Board, which is partly nominated by the government and partly elected by the Parliament on a system of proportional representation. The chairman of a county valuation board has a special right to appeal to the Central Valuation Board with regard to the decisions of the county valuation board against his vote. The decisions of the Central Valuation Board are final in all questions of valuation. The Central Valuation Board is responsible for the general guidance of valuation work and the examination of valuations, the alteration of which it may, if necessary, carry out or order the county valuation board to carry out.

In the Metropolis and the largest provincial boroughs there is no county valuation board but the local boards are in direct touch with the Central Valuation Board to which any complaint against the assessments is sent direct.

This democratic organization, with its great number of local valuation committees (and with a thorough knowledge of their small districts) guided by county boards and the Central Valuation Board, assures that there is the closest possible contact between the citizens and the valuation authorities, which is of extraordinary importance for the work of valuation and makes it possible to finish a valuation for the whole country in the course of one year. It is done by men who all have their private business and who undertake the valuation work in an honorary capacity receiving only a very small fee. There are about 4,000 valuers at work and the total cost of a general valuation is not more than £100,000 altogether, or about three to four shillings per valuation.

PROCEDURE AND METHODS

A general valuation takes place every fifth year. In the interval between the general valuations, special valuation is made when land is sub-divided, or when buildings are erected or when there are structural alterations of more than 2,000 Crowns value, or in any case if the owner wishes. And a revaluation of the land alone is made of such lands the value of which may be considered to have increased by the laying out of railways, streets, roads, open spaces, etc., or for other special reasons.

To assist in the work of valuation, every valuation board is supplied with a record of all the properties on the cadastre in the district with particulars of the area of each, and a map of the district which shows the position of each cadastral number; and, in the case of agricultural land, the classification of its natural quality according to the old estimation (the "Bonitering" or assessment for the "Hartkorn" tax) of 1844, which continues to be of service to the valuers in many parts of the country.

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PARTICULARS SUPPLIED

Before the general valuation begins, valuers are also supplied with the particulars of all the transactions in land within their districts during the past year, purchasers being required to make return of these particulars to the Central Valuation Board.

On the occasion of every valuation the owner has a return to fill up which notifies him of the cadastral number of the property and the area as it is stated in the records of the valuation board, and the owner is requested to give all necessary information with regard to his property, such as area, description and area of buildings, amount of annual rent, purchase money paid for the property or part of it within the last 20 years, the mortgages on it and the like. An opportunity is also given to the owner to state what in his opinion is the selling value of his property and of his land apart from improvements and he is also reminded of his right to claim allowance for permanent improvements.

If the information given by the owner is not sufficient, the valuers have an unlimited right to require information from official authorities and from banks, loan societies, insurance companies and the like.

THE LAND REGISTRY

In this connection it should be stated that every sub-division and every aggregation of land has to be officially approved and registered, and every transfer of property, mortgage right, or other private claim that is secured upon fixed property must, in order to enjoy the full protection of the law, be entered in the property register which is accessible to the public; and the creation of this right or claim is published in the *Government Gazette*.

Uncertainty with regard to the boundaries of a property, the conditions attaching to it, or the private rights or claims upon it is very rare; and such information in regard to any property can easily be obtained.

ASSESSMENTS IN COUNTRY AND TOWN

Before any single property is assessed the general level of valuations in the district is fixed. In the rural districts this is usually done by the county valuation board by carefully valuing a few properties in each parish to ensure a uniform valuation throughout the county. The local valuation committee, guided by its chairman who is himself a member of the county valuation board, then has to assess every single property by the standard of these representative valuations set by the county valuation board.

For the towns the valuation starts with street valuations: the value per square metre of a lot of 30 metres deep is assessed in every street or part of a street; but in the greater part of Copenhagen 20 metres is taken as the normal depth. In this work the valuers refer for guidance to sales of vacant land (if any), sales of land with buildings (having due regard to existing building values), and especially to normal rents in different streets. When building values are equal, then the difference in selling value of properties or differences in normal rent received will give a more or less accurate expression to a difference in land value. When these street values have been established the

value of every single parcel of land is assessed. By this work the valuers usually make use of a depth-table showing the relative value per square metre for different depths. This depth table is very similar to that used in several American cities, though it is based on our own experience. The value of corner-lots will generally be computed in accordance with some general rule established beforehand on the basis of experience.

As a matter of course, the valuations that one arrives at by using as an aid such valuation tables should always be confirmed by looking at the valuation as a whole, whereby attention can be paid to the special conditions that might attach to any individual property.

LAND VALUE MAPS

In the towns, assessed "street prices" are entered on the valuation map of the district; and in the country districts there is entered on the district valuation map the assessment per hectare for every separately assessed piece of land. By this means the Valuation Authorities can most easily get a general survey of the assessments and the facility also easily to judge that the valuations are correct and in proper harmony. By entering also the particulars of any sale of vacant land, especially of building ground, it is possible to see how or whether the valuations are in agreement with the selling prices. By these uses, the land valuation maps are therefore of considerable assistance in the valuation work in addition to the help that they afford for recognizing the position of each individual property. It is not too much to say that a good land value map is an essential aid in making a valuation.

A copy of the land value maps is deposited for public inspection together with the valuation roll so that the owners also have the same easy facility of seeing whether the assessment of their land is in keeping with the assessment of other properties. Moreover, at the last valuation, the land value maps for the Metropolis and for quite a number of the provincial towns, especially the larger ones, have been printed and made available to the public.

RESULTS OF THE VALUATION.

If the valuation gives occasion for many complaints on the part of the owners this shows that there has been something wrong with the work. On the other hand one cannot conclude that the valuation is satisfactory if only few bring forward complaints against the assessments, because a reason for this might quite well be that the valuation as a whole is too low.

At the last valuation the number of contested assessments, of which, however, the greater part had reference to the valuation of the improvements, was less than one per cent of all the assessments, and only about one-fifth of the appeals that came before the county valuation boards had to be carried through to the Central Valuation Board.

If now it is asked how the valuations agree with the market price, which should be the standard, there is some difficulty in making the comparison so far as the land value assessment is concerned, because most properties and certainly the most valuable sites in the towns are built upon and as a rule are only sold together with the buildings.

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It is easier to give an answer so far as the valuation of land including improvements is concerned. As there is a very close connection between land value and the total value at any rate of agricultural properties where the land value makes up such a large part of the total value, the following particulars are given to show how the selling price of properties in 1932 compared with the assessments. These are sales that took place after the general valuation and referred to altogether 12,000 built-upon properties that were sold. The average comparison is given for these properties, grouped as follows :—

| <i>Town Properties.</i> | | | | <i>Selling price higher than the valuation. per cent</i> |
|--------------------------------|-----|-----|-----|--|
| Metropolis | ... | ... | ... | 2.1 |
| Provincial boroughs | ... | ... | ... | 0.8 |
| Townships | ... | ... | ... | —1.0 |
| Other country districts | ... | ... | ... | 8.1 |

| <i>Agricultural Properties.</i> | | | | <i>Selling price higher than valuation. per cent</i> |
|---------------------------------|-----|-----|-----|--|
| Larger properties | ... | ... | ... | 3.9 |
| Medium-sized properties | ... | ... | ... | 13.4 |
| Smaller properties | ... | ... | ... | 24.2 |

In respect of the agricultural properties, the relatively great difference between the selling price and the valuation of the land with improvements, even for medium-sized properties, discloses some lack of uniformity in the assessments in the different county valuation districts. The difference is not so considerable as far as the land value assessment is concerned which therefore on the average may be taken to lie nearer the market value than does the valuation of land with improvements.

In the case of sites the selling price and the valuation can be directly compared in the case of sites which before being sold have been valued independently; such building lands are generally situated on the outskirts of any building developments. Comparing the land value as assessed at the beginning of 1932 and the purchase price of 1,700 building sites that were sold during 1932, the result was as follows :—

| | | | | <i>Purchase price higher than last valuation. per cent</i> |
|--------------------------------|-----|-----|-----|--|
| Metropolis | ... | ... | ... | 8.2 |
| Suburb of metropolis | ... | ... | ... | 12.9 |
| Provincial towns | ... | ... | ... | 17.3 |
| Townships | ... | ... | ... | 20.0 |
| Other country districts | ... | ... | ... | 32.3 |

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The assessment of the land value of built-upon properties cannot, in the nature of the case, be directly tested by sales. The general valuation that is about to take place will certainly show a considerably closer agreement between the assessed land value and the market price of the land, both for urban and for agricultural properties, since the new tax on increased values has made it most important that the datum line for measuring the increase is rightly assessed and in any case shall not be too low.

Experience derived from the occasional valuations made since 1934 has shown that the exact determination of the datum line as required by law has resulted in a considerable increase both of this datum line (namely the land value as on 1st January, 1932), and also of the valuations that have just been made, where previously the assessments were too low. In the same way also the disparity has been decreased which was found to obtain between assessments in the various county areas and in parishes.

In the matter of bringing the assessments of parishes as units into proper relationship, which has been so greatly facilitated by the use of land value maps during the last valuation, the new valuation will also show further progress.

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