

Land-Value Taxation in Denmark

PRESENT POSITION AND LINES OF FURTHER PROGRESS

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1. General Survey

DENMARK is the first country in Europe to have put into practical operation the taxation of land-values as advocated by Henry George.

With each general assessment since 1916 of the capital value of land and improvements for taxation, the *land value* has been separately assessed; these periodic valuations having taken place in 1920, 1924, 1927, 1932, 1936 and 1945 and thereafter will take place every fifth year.

Since 1924 an annual national tax on land-values apart from improvements has been levied; and since 1926 the local authorities have been obliged also to levy rates on land-values for some part of their annual expenditure.

The greater part of the real estate taxation is now levied on land-values. Yet the actual application of land-value taxation to the Danish taxation system taken as a whole is still a very modest one.

In 1947-48 the aggregate of the tax-revenue, national and local, direct and indirect, amounted to 3,300 million crowns (say, £165 million) equivalent to 800 crowns, say, £40 per inhabitant. Of this, nearly 2,000 million crowns was derived from direct taxes and rates; and of that again only a small part, namely, 273 million crowns was obtained by taxes on real estate, the main source of revenue being taxes and rates on personal income. Rates and taxes on *land-value*, apart from buildings and improvements, amounted to 176 million crowns, this including a special increment duty and being nearly two-thirds of the total taxes on real estate, while the remaining 97 million crowns came from taxation on buildings and improvements.

The total value of buildings and improvements attached to taxable real estate amounted to 13,000 million crowns, so that the taxation—97 million crowns—was at an average rate of $7\frac{1}{2}$ per mille of the taxable value. But as a very large part of building value is exempt by the tax-free deductions, the average rate on the remaining actual taxable value is considerably higher.

As for the aggregate *land-value* of real estate, the total (as assessed) is 6,800 million crowns (say, £340,000,000); and of

that, the taxable land-value is about 6,200 million crowns. Since the amount of the land-value taxation is 176 million crowns, the average rate of the land-value taxation is 28 per mille of taxable value.

From this general survey it may be gathered that the taxation of land-values, although accounting for but a small part of the total taxation and for little more than two-thirds of the taxation of real estate, is not inconsiderable in relation to the assessed value of land.

But the average rate of 28 per mille embraces very wide variations, partly because the respective parish council expenditures (and, therefore, the local rates and taxes levied) vary so considerably, but mainly because the proportion of revenue obtained by land-value rating varies in very different degree.

2. National Taxation of Real Estate and Land-Values

The national tax on land-values (including contribution to a local authority equalisation fund) is at the rate of 6 per mille. The value of buildings and improvements—capital value of the property with deduction of its land-value—is taxed at the rate of 4½ per mille. But the first 12,000 crowns value of buildings and improvement is exempt from taxation; and if the property contains more than one dwelling with a kitchen, there is a further tax-free deduction of 2,000 crowns for each dwelling exceeding one.

In 1947/48 the national land-value tax yielded 38 million crowns. The tax on the "differential value" of buildings and improvements (i.e., total value minus land - value) yielded 27 million crowns.

This taxation is based on a national valuation provided for in the Act of 1922 and periodically revised; and this national valuation constitutes the basis also for all local rates on real estate.

3. Local Rating of Real Estate and Land-values

The local rates on real estate amounted in 1947/48 to 206 million crowns, being about 23 per cent. of the local taxation (which was 860 million crowns in that year) the rest being derived mainly from local income tax.

The local rates are now regulated by an Act of 1933 on lines very similar to those for the State tax. The rate on the value of buildings and improvements is bound to be three-quarters of the rate per mille on land-values (in the counties, three-fifths), but a tax-free deduction from the value of buildings and improvements has to be given within certain limits.

In the rural parish districts the tax-free deduction is to be 5,000 to 7,000 crowns; in the provincial towns, 8,000 to 11,000 crowns; and in the City of Copenhagen, 14,000 crowns. And to this is added a tax-free deduction of 1,500 crowns for every dwelling exceeding one, in any property.

In the counties the tax-free deduction has to be equal to the value of land plus 5,000 crowns plus 1,000 crowns for every dwelling in the property exceeding one. This means that practi-

cally all agricultural properties are wholly exempt from county rates on the value of buildings and improvements.

The local councils in urban districts, including the City, have to resolve every fourth year what the rate on land-values is to be for the succeeding four years; and, within the legal limit, what tax-free deductions shall be given from the assessed value of buildings and improvements.

In Copenhagen the rate on land-value cannot exceed 7.5 per mille. In the provincial towns, the local rates on real estate (the land-value rate plus the building-rate) must not exceed one-sixth of the total local taxation (including local income tax) averaged for the latest 10 years. In the rural districts the parish councils shall every fourth year resolve how large a part of total rates shall be levied on real estate for the succeeding four years and what tax-free deductions within legal limits shall be given. In accordance with that resolution the rate on land-values is fixed annually, corresponding to what is necessary to cover current local expenditures.

The counties can rate only on real estate (they have no local income tax) and they fix their rate on land-values annually as is necessary to cover current expenditure.

It will be seen that the local councils do not have the liberty to rate on land-values only. The rate on land-values is linked with a corresponding but somewhat lower rate on the taxable value of buildings and improvements; and it is especially to be noted that rating on real estate is legally restricted in the City and in the provincial towns within very narrow limits, while in the rural parish districts there is no legal limit as to the proportion of total rates that can be levied on real estate, but changes affecting that proportion must have the consent of the county council.

Accordingly, we find very wide variations in the proportion of total local taxation which is taken by rates on real estate; and, of course, there is a corresponding variation in the per mille land-value rate.

	Rates on real estate as percentage of total local taxation.	Rates on land- value as per- centage of total local taxation.	Average land- value rate per mille of assessed land-value.
Copenhagen ...	10.9%	4.3%	7.5
Provincial towns ...	6.7%	2.7%	6.0
Rural parish districts	37.3%	25.0%	17.5
Counties ...	100.0%	80.6%	12.5
Total for rural districts	42.9%	30.5%	30.0

In the rural parish districts the rate on real estate, as a proportion of total local taxation, ranges from 4 per cent. up to 90 per cent., and the rate on land-values varied from 3 up to 44 per

mille of assessed land-value. With addition of the national land-value tax and the county rate, the total land-value taxation varied in 1947/48 throughout the rural districts from about 18 per mille up to 67 per mille of the land-value.

Some special regulations should be noted in connection with the taxation of real property.

Since 1933 a part of county rates on land-value (but not of the rate on buildings and improvement) will be met by the State, when agricultural average-earnings in the preceding year have been less than 4.3 per cent. of selling-value according to approved accounts from farmers. In 1947/48 this support from the State was 6,000,000 crowns. Without this support the county rate on land-values would have been 14.1 per mille of the land-value.

To encourage building activity, new dwelling houses have in later years been exempted from State tax and local rates (except county rates) on the value of buildings and improvements.

4. *Special Taxation of Increases in Land-value.*

Apart from the general tax and rates on land-value, a national tax on increases in land-value was instituted in 1933, taking 1932 assessment as the datum line, but with provision that this assessment had to be revised in conjunction with the first succeeding assessment of the land.

The rate of this tax is 4 per cent. annually of half the increase revealed at each valuation made after 1933, but there is exemption of the increase in land-value which is proportionate to the increase, according to the latest general valuation, that has taken place since the general valuation of 1932 of the total land-value of the whole country up to 10 per cent., and beyond that to half of the general increase. There is a further exemption of 10 per cent. of the re-assessed land-value exceeding 40 crowns per square metre, and of 5 per cent. of the value between 40 crowns and 320 crowns per square metre.

The revenue from this increment tax is shared equally between the Treasury and the local rating authority.

In 1947-48 this revenue was 6,000,000 crowns and the total land-value subject to it was 150,000,000 crowns, which also has to bear the ordinary rates and taxes on land-values. This increment tax is of consequence only where there has been a considerable increase in land-values, caused by local or special circumstances, especially by urban development of agricultural land in the vicinity of the towns, and especially near the City; but it will not generally affect ordinary agricultural land, because of the exemption proportionate to the overall rise in land-values and the further 10 per cent. exemption.

But where land does become liable to this special tax, it means that 45 per cent. of the increase in value or in economic rent (in excess of the overall increase) is in fact made common property. The interesting feature should be noted that in the valuation of land the incidence of the increment tax is disregarded whereas general rates and taxes are taken into account to the

extent that they affect selling values. In other words, the land is valued as if the charge of increment tax did not exist. In this respect taxation of increases in land-value is treated quite as if a corresponding part of the land had been acquired from the State on condition of the economic rent being paid to the Treasury.

5. *Land Sold by the State on Payment of the Economic Rent.*

Since 1919 agricultural land belonging to or acquired by the State has been alienated for the establishment of smallholdings on condition that the owner pays 4 per cent. per annum of the value of land as it was assessed on date of transfer and as revised at each general periodic revaluation of the whole country. In that year (October 4th, 1919) three laws were enacted. One of them provides that parochial or glebe land (agricultural) be alienated by the State on conditions as aforesaid. The State assumes the responsibility of paying to the dispossessed an annual income equivalent to the assessed rental of the land resumed by the State. The owner had the right of reserving for his own use seven hectares.

The second law, in 1919, provided that each entailed estate should be freed from the burden of the entail on condition that the present holder paid to the State one-fifth of its value and that he surrendered one-third of the farm land against payment by the State at its assessed selling value; that farm land being placed at the disposal of the State for the establishment of smallholdings.

The third Act deals with the disposal of the land acquired by the State under these two Acts, or other agricultural land in the possession of or being acquired by the State, and the finance provided for the erection of buildings, etc., on the new holdings.

Under this and subsequent legislation to the same purpose, the State has disposed of land for smallholdings, and sites for cottages for agricultural workers, now valued to a total land-value of nearly 70 million crowns. About 7,000 new smallholdings have been established on this basis, while about 3,000 other smallholdings have been supplied with additional land under like conditions.

6. *To what extent has Land-value been made Common Property?*

From the latest assessment of land-values it should be possible to estimate what part of total land-value is individual property and what part has been made common property through the rating and taxation of land-values and through public ownership of land or of the economic rent of land.

The periodic valuation in 1945 showed a total land-value assessment of nearly 6,790 million crowns, although of that sum 100 (one hundred) million crowns was actually value of improvements on land.

The land-value of publicly owned land amounted to nearly 700 million crowns.

The increment duty and the economic rent (the latter as for the smallholdings above mentioned) paid to the State at the rate of 4 per cent., are based on a capital land value of 220 million crowns, which is therefore also common property.

With those deductions from the total assessment of 6,790 million crowns, the remainder makes 5,770 million crown of land-value left in private hands.

If now we capitalise (on a 4 per cent. basis) the ordinary rates and taxes on land-value we get a total of 4,250 million crowns, which represents the amount of land-value made common property through taxation. To that we add the value of land in public ownership (700 million crowns) and of land-values paying the full economic rent to the State (220 million crowns) and we arrive at a total of 5,170 million crowns, representing land-values made common property, and a total land-value (private and public taken together) of 10,970 million crowns.

Accordingly, the result seems to be that in Denmark, through land-value taxation and public ownership of land and of economic rent of land, nearly half of total land-value has been made common property.

As Denmark has a population of 4,000,000, the total land-values average 2,700 crowns per head, of which nearly 1,450 crowns is still in private possession.

But I think that, having regard to this result and comparing it with corresponding results from other countries, another factor should be borne in mind, namely, that land-values—assessed and total—are to a large extent influenced not alone by State and municipal enterprise and expenses to the benefit of the citizens, but also—in the opposite direction—by the incidence of the rates and taxes other than land-value taxation, which are levied to cover the expenditure.

It is possible that a shifting of the tax burden from income-tax or indirect taxes, so that it bears directly on land-values, will not affect the selling value of land to the full extent of the capitalised rise in land-value taxation, because the effect of land-value taxation in depreciating the selling value of land will to some extent be counterbalanced by the reduction of other taxation.

Our experience in the field of local taxation, where the burden varies widely from locality to locality, seems to show that differences in the rate on land-values are by no means reflected in fully corresponding differences in the selling values of ordinary farms, if there are corresponding differences in an opposite direction in the rate of local income-tax imposed.

This is the experience for agricultural land, but to some extent it probably holds true also for urban land.

Now, if this be true, the assessed value of land will not show exactly to what extent it should be possible to shift taxation from improvements, income or consumption to land-values. Experience alone can show to what extent this is possible, and it should be very interesting to have such experience presented from different countries and also from the small "enclaves of economic rent," as are established in the U.S.A.

7. Actual Lines of Further Progress in Denmark

Looking back on the development of land-value taxation and of the appropriation of economic rent in Denmark, three lines of progression can be traced, each of them leading to results of some importance :—

1. State acquisition of land and the disposal of it on conditions of payment of the economic rent.
2. Appropriation of some part of increases in land-values, by collecting the economic rent of this part of land-value.
3. Shifting taxation from improvements and income upon the value of the land alone.

Each of these lines of progression can be projected in the future as lines of further progress and are at present on the stage of practical politics.

As for the first, which is of minor importance, looking only at economic results, it may perhaps be worth while to consider the educational value of having in almost every rural district some smallholders paying the full economic rent of their holdings to the State, and being in a thriving state, and a number of other smallholders having some part of their land under like conditions.

Recently the Government, in order to get more land for the establishment family-farms, has acquired a general right of pre-emption, when big farms (with land-value exceeding 35,000 crowns at pre-war prices) are on sale. Under certain conditions this right can be extended even to medium-sized or smaller farms, when the land is apt to be disposed of to existing smallholdings too small to maintain a family and give full employment to the smallholder and his family.

Further, a Bill has been presented in Parliament by the Radical Liberal Party to the effect that land owned by the State or by local authorities, and suited for building, shall be alienated only on condition of the owner paying the annual economic rent instead of a selling price.

This Bill seems in principle to have met general approval in Parliament so that it seems likely that the principle of paying the full economic rent in this way shall soon be extended from agricultural land to building land in urban districts.

As for the second line of progress, the appropriation of economic rent of increases of land-value, a Government Bill has been presented to Parliament to increase the payment so that it will absorb nearly 90 per cent. of the assessed increases in land-value, exceeding the percentual general rise in land-values.

As increases of land-values resulting from urban developments can vary most widely—even for adjacent lots—and by subdivision in course of time can be very different even for lots sold from the same property, the Bill provides that the seller must give the buyer full information about this public burden on the land. Eventually a fresh valuation can be required before the transaction of sale is effected so as to make sure that it shall be duly taken into consideration in every contract of sale and

treated as the burden of the economic rent, as when sales are effected of agricultural land or of agricultural holdings paying the economic rent to the State.

It is hoped that this measure will annihilate land speculation, where urban development is going on, and that the speculative rise in land-values for private gain outside the City and the towns will be eliminated, while a measure of this character should not interfere with the natural development and growth of urban areas or with private building enterprise.

With regard to the replacing of taxation on improvements and on income or of indirect taxation by taxation of land-values, there is a growing sentiment especially against taxation of buildings. New dwelling-houses are now exempt from taxation for a period of 22 years from their erection, and a Bill has been presented in Parliament to exempt from taxation every future augmentation in the value of buildings.

As far as local rates are concerned such exemption should lead to a corresponding higher rate on land-values.

This proposal has not been carried, but is left to the consideration of a Commission, which has to consider the general scope of rating and taxation, and work out proposals for amending existing tax-legislation.

Greater importance is attached to the question whether there should be given to the local authorities, especially the City and the provincial towns, more freedom to transfer taxation upon land-values, relieving the income-tax payer; and the question whether land-value taxation should be extended within the scope of national taxation.

While these possibilities of further progress can be characterised as merely an extension of earlier well-tried legislation leading to appropriation of part of economic rent, the total appropriation of economic rent has been recently taken under deliberation.

In 1948 an interdepartmental Commission was nominated to consider the problems that revolve around the appropriation of that part of economic rent which has not been appropriated by ordinary rates and taxes on land-values, and eventually to work out proposals for carrying such a measure.

This Commission has been nominated mainly to meet the wishes of the Justice Party, which has several times presented a Bill in Parliament to the effect of making the total economic rent public property at once, but with compensation to some extent to landowners.