

The recent retired Chief of the Danish Valuation Department here traces the history and outlines the present position of

# Land-Value Taxation In Denmark

By K. J. KRISTENSEN

DENMARK has had a national tax on land values since 1922. There has also been a tax on buildings and other improvements. This has been at a lower rate (three-quarters) and with tax exemptions for a considerable part of the value of improvements. In 1937 the tax on land value was raised from 1.5 to 6 per mill and that on improvements from 1.2 to 4.5 per mill.

Local taxation is based partly on personal income and partly on real estate in proportions that vary considerably from place to place. While the towns, including the capital, Copenhagen, derive only a small part of their revenues from rates on real estate, the rural districts (parish councils) generally derive a substantial part and the counties the whole of their revenue from this source.

In 1926 the different rates on real estate were replaced by rates on land values combined with rates on the value of improvements at three quarters the rate on land value and with tax exemption for a considerable part of improvement values. In 1933 county rates on improvements were reduced to three-fifths the rate on land values and the exemptions further extended by an amount equal to the land value of the property. As a result, farms became, and have remained, totally exempt from the rate on improvements.

## National Tax On Increases In Land Values

Since 1933 a special state tax of 4 per cent. per annum on a small part of the increase in land values has been levied. The revenue has been shared equally by the Treasury and the local authorities. Owners have had to pay the tax in addition to the national tax and local rates on land values and the land has been valued as if no part of the land value was liable to this special tax. Several amendments have extended liability to this increment tax. Broadly speaking, the latest enactment provides for the 4 per cent. increment tax to be charged on the difference between the 1960 value and 155 per cent. of the 1950 value, but with a further deduction of 10 per cent. of the land value of a property within Kr. 1 per square metre in 1950. (The increase of total land value of the whole country during the past decade is averaged at 55 per cent.; a new percentage will replace the 55 percentage at

every new general valuation). A worked example may help to make this clear:—

*The amount liable to State increment tax on a 10,000 sq. metre plot assessed at Kr. 15,000 in 1950 and at Kr. 40,000 in 1960 is:*

$$\begin{array}{r} \text{Kr. 40,000} - 15,000 - \frac{55}{100} \times 15,000 - \frac{10}{100} \times 10,000 \\ = \text{Kr. 15,750} \end{array}$$

On this sum the owner has to pay 4 per cent., i.e. Kr. 630 annually, in addition to general local and state taxation.

## All New Buildings Exempt From National Taxation

In 1957 state taxation of improvement values was frozen for all properties at the amount payable immediately before the 1956 general valuation took effect. As a result all new buildings and all future increases in improvement values are tax free.

At the same time and to the same extent the local rates on improvement values are fixed in the towns to the amount payable for the preceding year. The rate on improvements in the towns at that time was 9 per mill and the land value rate was 12 per mill. The rates had been raised to this level — nearly twice as much as before — when rent restrictions were related in 1955.

## Rent Control Relaxed

In 1958 a further easement of rent restrictions was enacted, and in this connection the rates on land values in the towns were raised by a further 14 per mill to 26 per mill. At the same time the rate on improvements was raised by 14 per mill to 23 per mill of their pre-1956 rateable value. It was provided, however, that this extraordinary rate on improvements should be gradually reduced and finally abolished over a period of 40 years.

In the counties and in the local rural districts rates on improvements were not fixed in 1957. Recently it has been enacted that from 1961/2 the rates on improvements both in the county and in the rural districts are now fixed at their amount for every property in the preceding year, i.e. before the general valuation 1960 has taken effect.

At the same time for half of the amount of county

rating on land values the direct rating on owners of real property is replaced by the repartition on the rural districts, one quarter according to the total rateable land value and one quarter according to the total taxable income with each district. The amount payable by the rural district to the county is to be passed on to the ratepayers in accordance with the general rules prevailing in each local district partly by taxing incomes and partly by rating on land values.

The local governments both in the towns and in the rural districts are relieved of some expenses — especially their responsibilities for paying a part of old age pensions. This enables the towns to reduce the amount of their taxes on incomes by nearly 5 per cent. The rural districts in order to meet their obligations to the county are forced to raise their taxes on incomes as well as their rates on land values.

Towns are not allowed to reduce their rates on land values. County rates on land values are not allowed to exceed 14 per mill, and in the rural districts the rate on land values shall not be lower than 10 per mill and not higher than 40 per mill.

The amount of rating on improvements as fixed is to be reduced by one-seventh every fourth year from 1964 and consequently abolished within 28 years. Also in the towns the rates on improvements shall now be abolished within 28 years from 1960.

On the other hand, towns and rural districts are allowed —but not obliged— to raise a special local tax not exceeding 5 per mill on the value of improvements to cover special expenses caused by industry and trade. Improvements used for agricultural or dwelling purposes are exempt from this provision. Rural districts are allowed to impose an additional rate (not exceeding 10 per mill) on the value of farm land farmed by absentees who are not liable to the district's tax on personal income.

#### Present Position Summarised

The position after April 1, 1961 may be summed up as follows:—

National taxes and local rates on the value of improvements are fixed and to be gradually abolished, leaving new buildings and every other increase of improvement values tax free.

Land values are charged with (a) a national tax at the rate of 6 per mill and with (b) local rates:

- in the towns at 26 per mill.
- in the counties probably at about 9 per mill as an average (with a special reduction for farms when general net returns of agriculture have been below 4.5 per cent).
- in the rural districts probably at about 20 per mill as an average varying between 10 and 40 per mill.

The additional 4 per cent. tax on *increases* of land value is of importance especially in urban development areas, and a substantially greater revenue may be expected as a result of the recent extension of liability to this special tax and of the new (1960) general valuation.

## FORTUNE FOR NOT FARMING

*Continued from Page 78*

tween border areas in Canada and the U.S. This is the indirect result of differences in price support policy by the two countries. The Canadian farmer gets a farm price for his grain that is the export price less the cost of shipping, storing and marketing through the Wheat Board. There is no element of indirect subsidy, except the 7c or 8c a bushel that represents storage costs covered by the government under the Temporary Wheat Surpluses Act (and the acreage payments when they occur).

"The U.S. farmer gets a farm price directly supported by the U.S. government, which guarantees a price, and also pays most off-farm storage costs. The difference at farms in the middle-west is about 50c. bu. Rising price supports in the U.S. have been capitalised back into land prices. Value of farm land in the U.S. reflects the high support price for grain. To U.S. farmers, comparable land in Canada looks like a bargain. It's estimated that the difference in price may be \$15-\$20 an acre."

Later the *Financial Post* comments: "From the seller's point of view, the U.S. buyer is a welcome bidder. But rising land values create difficulties for the Canadian farmer seeking more land to make a more efficient unit, or the young farmer starting out . . . The higher the price the farmer has to pay for land, the higher the fixed costs he has to cover, and the larger the investment he must make to have a money-making farm. This is what worries both governments and farm groups."

### GEORGEISTS APPEAR BEFORE CANADIAN SENATE COMMITTEE

CANADIAN newspapers on March 16 carried a C.P. despatch from Ottawa as follows:—

The Canadian Research Committee on Taxation has proposed taxation of natural resources — instead of taxing production — as a step toward full employment. The committee, described as a non-profit, non-political organisation, made the suggestion in a brief to the special Senate Committee on Manpower and Employment.

"The value of natural resources is created by the activities and growth of the community," said the brief. "This is a new, large source of public revenue that should be tapped before any other taxes are imposed. By doing so, it will be possible to eliminate a number of existing taxes—taxes that are at present discouraging enterprise."

The research committee said that by getting public revenue from a tax on natural resources, land holding and speculation in natural resources are discouraged. It promotes the most intensive use of land, and therefore promotes maximum employment." Present taxes dis-