THE ALLEGED "DOUBLE TAXATION" OF LANDOWNERS

The Liberal Amendment to the Finance Bill: Statements issued by the Land Values Press Bureau

On 5th June, four days before the Committee stage of the Finance Bill began, a challenging Amendment appeared on the Order Paper in the names of four Liberal Members—Sir Donald Maclean, Mr Hopkin Morris, Mr Clement Davies and Mr Pybus. It created an extraordinary political stir. The Liberal Parliamentary Party advanced this criticism of the Finance Bill proposal for the land value tax because, in their view, the tax to be levied was an unjustifiable addition to the taxation already charged upon landowners through Schedule A of the Income Tax. This action was taken without previous notice given in any of the preceding debates either on the Budget Resolutions or on the Second Reading of the Bill. The principles of the Finance Bill had been fully grasped and heartily approved. Then came this sudden concern for the landowners who, as alleged, would have to "pay twice"; and insisting upon their new point of view, Liberals held themselves ready to defeat the Government (naturally with the aid of the Tory vote) and provoke a General Election if the Bill was not amended as they wished.

The Liberal Amendment suffered under the fire of critical examination. Various attempts were made by its sponsors to overcome its practical defects. After prolonged discussions inside the Party and negotiations with the Government it was considerably altered. In its new form it became a proposal to reduce the assessment instead of reducing the amount of tax payable. In that form, as an Amendment to Clause 20, it was declared out of place by the Chairman of Committee. By agreement with the Government (as the outcome of the compromise) the Amendment was then put forward as a new Clause to be embodied in the Bill at a later stage. But the drafting was still incompetent or not clear—it did not take cognizance of difficulties in the way of associating the income tax assessment with the land value assessment.

In getting the Clause into workable shape the Government draftsmen encountered further difficulties arising out of the altogether different character of the "Schedule A" assessment, and of the need for adjusting that assessment to different conditions obtaining in England and in Scotland; and they had to provide even for fabricating a "Schedule A" figure where it does not now exist. The new Clause (number 19) was introduced into the Bill on 24th June. Unfortunately, and for political reasons, it had so to find a place. Economically and practically its formula is unsound; the anomalies that will arise in application are explained later on.

The Government came out of the deadlock with the basic principle of the Bill intact so far as valuation is concerned, and although the burden of the tax is modified, the "double taxation" the Liberals (wrongly) tried to avoid is preserved.

When the original Liberal Amendment appeared on 5th June, an official statement upon it was prepared by the Land Values Press Bureau Service of the United Committee. This was sent on 10th June to all Labour and Liberal Members of Parliament, to the Press, and to correspondents in various parts of the country. A similar distribution was made of a second statement issued by our Press Bureau on 13th June, written and signed by Mr F. C. R. Douglas. There was also posted from the Press Bureau, in time to reach the Members of Parliament by 16th June (the day of "crisis"), the admirable and illuminating article on the Finance Bill provisions that appeared in the June number of the *Liberal Magazine*. That extract we hope to print next month.

Here we give the text of the original Liberal Amendment, and of the two statements issued by the Land Values Press Bureau, naming them as Memorandum I and Memorandum II.

THE ORIGINAL LIBERAL AMENDMENT

(*Notice given on Thursday, 4th June*, 1931, *by Sir Donald Maclean, Mr Hopkin Morris, Mr Clement Davies and Mr Pybus.*)

Clause 20, page 21, line 4, at end, insert—

( ) Where the annual value of any land unit has been included in an assessment to income tax under Schedule A of the First Schedule of the Income Tax Act, 1918, as amended by any subsequent enactment, for a year ending the fifth day of April subsequent to the year of charge for land values tax and the owner proves to the satisfaction of the Commissioners that he has paid, or suffered by deduction from the rent, income tax on the annual value, he shall be allowed to deduct from the tax charged under this part of this Act in respect of that unit so much of the income tax as is applicable to the unit.

The division of the annual value of any land, tenement, hereditament or heritage into the annual value of the land unit, as defined by this Act, and the annual value of any other property in, on or under the land shall be according to the respective capital values thereof at the first day of January in the year of charge, and in any dispute the decision of the Commissioners shall be final.

In this section annual value means the annual value as defined in Schedule A of the Income Tax Act, 1918, as amended by any subsequent enactment.

MEMORANDUM IN REPLY—I

(*Issued on 10th June by the Land Values Press Bureau of the United Committee, preceded by summary as given here at end.*)

The object of this Amendment is apparent, although not clearly expressed. It is to give relief from the Land Value Tax to owners of land which, being improved, is already assessed to income tax under Schedule A. With that object in view the "annual value" assessment of Schedule A, including as it does both the land and its improvements, is to be divided into two parts.

The Amendment contains a formula for calculating how much of the assessment is annual value of land alone and how much is annual value of the improvements. It proposes to estimate the annual value (or rent) of the land alone and the annual value of the improvements according to "their respective capital values." No directions are given for ascertaining the "capital value" either of land with improvements or of the improvements alone, and the term "capital value" is not even defined. Before the formula could be applied it would be necessary to carry out an additional and separate valuation of the buildings and improvements on a capital basis—a work that would cost far more in time and trouble and is surrounded with much more difficulty than the valuation of land apart from improvements would involve. The operation of any tax measure under this scheme would be

delayed for years beyond the date contemplated in the Finance Bill.

The Amendment overlooks the very complicated machinery of the income tax with its five different schedules. The actual rate of income tax payable by the taxpayer on any one of those schedules depends entirely upon his net income from all sources; that is, upon the net taxable income after deduction of the various statutory allowances, rebates and abatements, which reduce the actual income, under all the schedules taken together, to the net taxable amount. The house that a person owns is assessed, it is true, under Schedule A, and the annual value of the house is included in the gross income of the person; but if, as the result of allowances and abatements, his net taxable income from all sources is reduced below £135, that person pays no taxation whatever on any schedule. In the result, his house is exempted from Schedule A of the income tax. On the other hand, where the taxpayer has a very large income which makes him subject not only to income tax, but also to super tax, his rate of taxation under each and every schedule may be as much as ten or twelve shillings in the pound. This means that Schedule A income tax is not a fixed rate of 4s. 6d. in the £. It may be any figure depending on the circumstances of the individual recipient or taxpayer affected; and in the further complication of passing back the share of Schedule A income tax to lessors and ground landlords, how is it possible to say what part of it is a tax on the rent of land alone?

Again, there are the cases of those on whom income tax is charged by deduction at the source, of which an example is the man who derives a dividend from a company owning landed property. The company pays the tax at the source, but the owner of the income will get repayment if his net income from all sources does not exceed £135. Out of the maze of these and other complications the Commissioners would have to extricate each bit, or all bits, of every income tax payment that could or should be attributed to receipt of rent for land alone—that is, of rent of land apart from buildings and improvements thereon.

But the wider implications of the Amendment are the more important

It will be observed that the Amendment does not intend any reduction of income tax on improvements. It merely relieves or exempts the land value from the new tax. It declares, in effect, that the owner of land, as such, where it is improved, shall continue to enjoy the market value of land, free from the tax the Finance Bill imposes.

The result of the Amendment would be to reduce the provisions of the Finance Bill to a mere Undeveloped Land Duty operating on vacant sites and on the fringes of towns where land, although valuable, is either not built upon or carries a worthless structure.

All other land would be exempted, and to proceed at all with the valuation of that exempted land would be perfectly useless. The provisions of Section 8 (6) would operate; the Commissioners would at once decide that all land which in their opinion is well developed would be exempt from valuation because it was evidently exempt from tax. It is apparent also that if the Amendment were built into the Bill, most of the sections which precede Section 20 (relating to exemptions) would be nullified. The prospects of a valuation intended as the basis for the much-desired and urgent rating of land values would disappear.

The Amendment is based on a false interpretation of the general demand that a rate or tax on land values should take the place of rates and taxes on improvements. As a fact, and as already stated, the Amendment proposes no relief to improvements or to the person who pays taxes on improvements. It discards the anticipated land value revenue, by which alone any such relief to improvements could be given. It would put an end to any expectation of obtaining by land value taxation additional revenue corresponding to the needs of the State.

The point to bear in mind is that, whether more revenue is required or whether there is to be a transference of taxation from trade and improvements to land values (without increasing the total revenue) any land value tax or land value rate must be an "additional tax" on some persons.

The Taxation of Land Values asserts the right of the community to a value which exists because of its presence and activities; and it is for Parliament to say how the revenue from any such tax shall be spent—whether for reducing taxes on trade and industry or for the overriding and increasing needs of the community.

Certainly, rates and taxes on improvements should be removed and certainly the community should derive revenue instead from land values. But what would happen under such substitution or transference? All who are now taxed as industrialists or wage-earners would pay less; all who enjoy land value would pay more. It is impossible to relieve improvements and industry unless land value, as such, is subject to a higher levy than before.

Any substitution of a land value tax or a land value rate for rates or taxes now levied on improvements must result in increased and decreased charges in corresponding degree: (*a*) they who are interested in land value, as such, will pay more; (*b*) they who are interested in improvements, as such, will pay less: while the persons who own both land and improvements will pay more or less, under this transference of taxation, according as their interest in land value, as such, is more or less than their interest in improvements, as such.

It will be competent for those individuals, who in this adjustment would necessarily pay more, to say that they have to bear an "additional tax." The answer is that the payment is in proportion to the value of land, apart from buildings and improvements; it is no burden or penalty on production or enterprise. The tax will be levied and the revenue will come from the public value of land. The person who has to pay the "additional tax" is in precisely the same position, whether the community uses the revenue to meet the increasing needs of the State or uses it to take rates and taxes off industry and improvements. This view of the case was well put by Sir Donald Maclean, M.P., speaking at the Annual Meeting of the Yorkshire Liberal Federation on 22nd June, 1923. He said: "Land value taxation added no new tax, and to the extent that it brought more taxation from one source it lessened the need of taxation from every other source."

The Finance Bill proposes a tax of 1d. in the £ on the market value of land whether used or not. It will yield revenue of (say) £10,000 000 to £20,000,000 a year. How this revenue will be applied will depend on the circumstances of future financial years. The money may be needed to balance the Budget. If, happily, there is a surplus of revenue in the Budget for the year, the opportunity will be at hand to repeal the worst of the taxes that now afflict production or add to the cost of living.

But a Budget that requires the prospective £10,000,000 or £20,000,000 for ever-increasing expenditure is more likely; and the outcome of this Amendment which would discard that revenue from land values would be to open wide the door for the general tariff and the disasters of indirect taxation.

The Amendment has apparently behind it the plea

that the selling value of the land which is built upon and occupied should be exempt from land value taxation because that selling value already contributes to taxation under Schedule A of the Income Tax. It is a false plea. The selling value of the land apart from its improvements is to-day free from all taxation.

The selling value of land is an untaxed value. The Finance Bill proposes to tax it.

It is argued that in the case of improved land the owner must accept a smaller price for it if sold, because it is subject to income tax and local rates, whereas the owner of vacant land, which is not subject either to income tax or to local rates can get a higher price for it on that account. The reply to this argument is that it ignores the influence of existing taxation in depressing the market value of vacant land, as well as the market value of used land. Where the land is undeveloped, the purchaser has to take into account the fact that income tax and local rates *will* be payable in respect of the use of land when it is developed and occupied. The price the seller of vacant land can obtain is diminished by the prospective taxation that will be imposed when the land is put to use, just as the price of improved land is diminished by the taxes actually levied on that property. *What is left in each case to the owner is the untaxed selling value of land.*

The owner of improved land and the owner of vacant land are placed on the same footing and are subject, not to an unequal tax, but to an equal tax on land values, under the provisions of the Finance Bill.

The Amendment contends in effect that only when land is undeveloped shall this value be drawn upon for public uses and the levy shall stop at the point where Income Tax begins. This means that the untaxed value of land shall for ever remain in private pockets. The Amendment denies the right of the community to draw upon that public value and by this token determines that the community, desiring further revenues for any public purpose, shall be compelled to resort to methods of taxation on commerce and industry that every free trader and progressive citizen must heartily condemn.

The revenue from the Finance Bill land value tax will not be forthcoming until the financial year 1934-35. It is for the proposers of this Amendment, concerned for the principle of Land Value Taxation as a substitutionary tax, to see the Finance Bill passed into law as it stands; and to proceed now to work out a practical scheme for relieving industry by reduction of taxation on improvements.

SUMMARY

1. The Amendment would require an additional and separate valuation of the market value of buildings and improvements.

2. The attempt to insert a Land Value Tax into the complicated machinery of the Income Tax is not a practical proposition.

3. The Amendment would reduce the provisions of the Finance Bill to a mere undeveloped land duty.

4. The Amendment would nullify the provisions in the Bill for valuing land that is built upon and improved. This would make the rest of the Bill unworkable and destroy any chance of obtaining valuation for the purposes of the future local rating of land values.

5. The selling value of land, whether used or held idle, is an untaxed value created purely by the presence and activities of the community. A tax on that value is a just and proper source of public revenue. It would mean no burden or penalty on production or enterprise.

6. If there is not to be an " additional tax " on land values to obtain revenue for the increasing needs of the State, the alternative is taxation on trade and industry.

7. It is commonly accepted that revenue from Land Value Taxation should displace the taxes now levied on improvements under Schedule A of the Income Tax. But the Amendment takes no step in that direction; it merely prevents any further levy on the land value of used land.

8. In effect the Amendment contends that the untaxed value of land shall permanently remain in private pockets.

9. If the movers of the Amendment are concerned for the principle of Land Value Taxation to replace taxes on improvements, they should see the Bill passed in its present form and work out a practical scheme that *will* relieve improvements. Since the revenue from the Land Value Tax in the Finance Bill is not forthcoming until the financial year 1934-35, there is ample time to deal with that problem and reach a satisfactory solution.

(J. P. and A. W. M.)

MEMORANDUM IN REPLY—II

(*Issued on 13th June by the Land Values Press Bureau of the United Committee*)

The purpose of this Amendment is to prevent " double taxation." This idea commands an instinctive sympathy. It is necessary, however, to inquire

What is meant by Double Taxation?

Every taxpayer is obliged to pay a multiplicity of taxation in the form of indirect taxes on sugar, petrol, and other commodities, and in direct taxation by way of Income Tax, Death Duties, local rates, etc. No objection is taken to this on the ground of double taxation.

It may be said that in these cases there is no grievance because these taxes fall equally upon all taxpayers; but this is not so, for some of them are graduated, and others fall according to quite fortuitous circumstances, such as the number of consumers that a man has in his household.

The argument in favour of the Amendment may be that the Land Value Tax involves double taxation of the same subject matter, because land value enters in some degree into the assessment for Income Tax, Schedule A. Even this statement of the argument is not correct. The Income Tax is fundamentally different from Land Value Tax, and it is only based upon an assessment from reasons of practical convenience arising from the fact that the rent actually paid is not in many cases a fair criterion of the actual income and that in other cases no rent is paid —the owner being also the occupier. Income Tax and Land Value Tax are entirely separate and based upon totally different principles, and the levy of both no more involves double taxation than the levy of, for example, Estate Duty and Income Tax upon one person in respect of one piece of land. No doubt this consideration was in Mr Lloyd George's mind when he pointed out in Committee of Ways and Means on 6th May, in reply to Capt. Brass (Parl. Deb. v. 252, No. 109, col. 442), that land value taxation was working well in other countries " in addition to Income Tax."

The argument for co-ordinating the Income Tax, Schedule A, with the Land Value Tax may, nevertheless, be put upon the entirely different ground that the former is, like the local rates, a tax on improvements and that taxation upon improvements should be reduced. This proposal was put, in 1909, in one of the most effective and popular pieces of propaganda (the *Daily Chronicle's A Penny Tax on Land Values*) in this form :—

> We therefore propose, first, to omit buildings and other improvements altogether from further assessment under Schedule A, and, secondly, to levy the tax upon the market value of all land, whether used or not.

Whether this proposal be practicable or not, especially

in the present financial condition of the country, there is in principle much to be said for it.

The proposal in the Amendment is the exact opposite of this. It is to maintain the full force of Schedule A tax so far as it falls on improvements, but to reduce it so far as it falls on land value.

The argument for the proposed Amendment cannot therefore be based upon the ground of exempting improvements from taxation.

The question thus resolves itself into this :

Is it unfair to impose an Additional Tax on Land Values ?

The fundamental principle of the taxation of land values is that land value (apart from improvements) is entirely a communal fund due to the presence and necessities of the people arising in something which is not the creation of human effort. If this is true, there can be no objection to additional or special taxation of land values. There can be no vested interest in an unjust exemption from taxation.

The principle is well stated in *Towns and the Land* (Urban Report of the Liberal Land Committee, 1923-25), which says :—

> On account of its peculiar character, the ownership value of land has been viewed in most countries as a fair subject for special taxation (p. 100).
>
> If the nation gives secure rights of user of its land, it follows that the *value* of land is a form of wealth to which the nation has a special claim and which, therefore, is peculiarly appropriate for taxation (p. 97).

Consideration should also be given to

The Practical Results of the Proposal

If it is carried logically into effect, the super-tax payers whose tax is based upon Schedule A as well as other income will be exempted from land value tax unless the rate of tax is raised to, perhaps, 6d. or 7d. in the £ on capital land value, while those whose incomes are so small or their families so large that they pay no Income Tax will bear the full force of the Land Value Tax. Conversely, if the latter are given an exemption from Land Value Tax in respect of Income Tax which they do not in fact pay, and the super-tax payers are required to pay the full force of the Land Value Tax, the idea of no double taxation falls to the ground.

Further, the proposal involves *an additional valuation* of the improvements upon land which cannot be carried out without the most minute examination of the structural condition, state of repair and adaptability to their purpose not only of every building, but also of every structure or improvement of every kind in or upon the land. One of the greatest defects of the 1909-10 valuation was the very fact that it involved valuation of improvements, and to tack this on to the present valuation would involve enormous additional expense and years of delay, not to mention appeals and litigation. The modest figure estimated for the new valuation (and especially for the revisions of it) is mainly due to the fact that it is to be a valuation of land value only.

The proposal will also involve a linking up of the enormously complicated Income Tax system of this country with the simple and logical Land Value Tax system. It will import into the latter all the difficulties and delays involved in the former and will impede and handicap both systems.

It would also mean a drastic curtailment of the revenue to be obtained from the new tax. If the proposal means that the tax derived from Schedule A is to be split into two parts, one to be attributed to the land value and the other to be attributed to the improvement value, and if the part attributed to the land value is assumed to be the same percentage of the total that the land value is of the capital value of land and improvements together, the result will be that the Land Value Tax would be applied in an

Inadequate and Imperfect Manner

Unless the capital value of land and improvements is at least 54 years' purchase of the assessed annual value for Schedule A the land will bear no land value tax at all. If it is more, the land will bear a small portion only of the land value tax ; and no land will bear the full amount of land value tax unless it is not assessed to Schedule A at all.

The way in which the proposal would operate is as follows :—

Where the capital value of land and improvements was, for example—	The land value tax would be—
54 years' purchase of assessment to Schedule A ...	Nil
55 years' purchase	1/55th of a penny
56 ,, ,, ...	2/56ths ,,
57 ,, ,, ...	3/57ths ,,
108 ,, ,, ...	54/108ths, or ½d.

In other words, land which was only 20/54ths developed would pay no tax, and as the amount of under-development fell below this, so the rate of tax would gradually rise from zero, reaching ½d. in the £ when the land was only one-fifth developed.

The land value tax will therefore be turned into an undeveloped land tax.

The experience of 1909-10 shows how little revenue is to be expected from an undeveloped land tax, especially as cultivation value is excluded. The result would therefore be one more fiasco of a long-protracted, complicated and out-of-date valuation producing little revenue and costing almost as much to collect.

Apart altogether from the practical difficulties, there are

Economic Considerations

of an important nature which require to be taken into account. The basic assumption of the Amendment is that some part of the Schedule A tax falls upon land values as distinct from improvements. It is a fundamental principle of economics since the time of Ricardo that a tax on land values is not shifted, but falls both originally and permanently upon the landowner. The corollary of this is that a tax upon land values depreciates the selling value of land by the capitalized amount of the tax. This deduction has been drawn by Sir Robert Giffen, Professor Seligman, Bastable, and many other eminent authorities on economics and taxation.

If, therefore, those who advocate this Amendment are correct in stating that some part of Income Tax, Schedule A, falls on land values, the market value of every piece of land is depreciated correspondingly. Value to be ascertained under the Bill is a market value ; and the payer of land value tax will automatically enjoy the exemption that the Amendment seeks to give him. The Amendment will in fact give him a double exemption.

It must be pointed out that this argument only applies to the standard rate of tax. Super-tax, being an imposition which only falls on the Schedule A assessment according to the accident of how much the proprietor's total income is, can of necessity have little or no effect on the market value. It appears, therefore, that

the only real case of double taxation is in the case of super-tax payers.

What has been said must not be read as implying any lack of sympathy with the demand for

Exemption of Improvements from Taxation

but the Amendment, as has been pointed out, does not deal with this. The very great practical difficulties involved in valuing improvements are, however, a serious obstacle at this stage and, as already pointed out, would imperil the whole success of the land valuation. It would seem, therefore, that if anything is to be done in this direction it would have to be by the rather arbitrary process of reducing by some percentage the Schedule A valuation, which in its turn would have the effect of reducing the part of it which falls on land value as well as what falls on improvements.

In any case, no Chancellor of the Exchequer could be expected to deal with such a matter until the actual year in which it was to be effected and in the light of the revenue requirements and other financial conditions of the time.

F. C. R. DOUGLAS.

THE NEW CLAUSE

The alterations in the Bill during Committee and Report Stage resulted in the Clauses being re-numbered. Part III dealing with the land value tax originally comprised Clauses 7 to 30. Part III of the Bill as passed is composed of Clauses 10 to 35. In this final arrangement the revised Liberal Amendment makes Clause 19, which also includes the provision (in Clause 14 of the Bill as first introduced) for subtracting the " cultivation value " from the " land value." This new Clause 19 entitled *Reduction of Land Value for purposes of Assessment to Tax* reads as follows :—

19.—(1) For the purpose of the charge of the tax, the land value of every land unit not being a unit in respect of which a cultivation value is shown by the entries relating thereto shall be reduced either—

(*a*) by an amount equal to four times the annual value of the unit for income tax purposes ; or
(*b*) by an amount equal to seven-eighths of the land value of the unit,

whichever is the less.

(2) For the purposes of the charge of the tax, the land value of every land unit in respect of which a cultivation value is shown by the entries relating thereto shall be reduced either—

(*a*) by the amount of that cultivation value ; or
(*b*) by the amount by which the land value would have been reduced under the last foregoing subsection if no cultivation value had been shown by the entries relating to the unit,

whichever is the greater.

(3) For the purposes of any assessment of land value tax the annual value of a land unit for income tax purposes shall be taken to be the annual value of the lands, tenements and hereditaments comprised in the unit which has been adopted for the purposes of income tax under Schedule A of the Income Tax Act, 1918, for the year comprising the first day of January in the year of charge to which the assessment of land value tax relates :

Provided that, where the area as respects which the annual value has been so adopted as aforesaid is not co-extensive with the area of the unit, the Commissioners shall make such apportionments of annual value as may be necessary to determine the annual value of the unit, and, in the case of lands, tenements and hereditaments as respects which no such annual value has been so adopted as aforesaid, the annual value shall be taken to be of such amount as may be determined by the Commissioners to be the amount at which the annual value of the lands, tenements and hereditaments would have been assessed for the purposes of the said Schedule if they had been assessed to income tax thereunder and, in the case of lands, tenements and hereditaments comprising any minerals, if no minerals had been comprised.

(*Application to Scotland*)

35. In the application of this Part of this Act to Scotland . . .

(*k*) For the purposes of section nineteen of this Act . . .

(ii) where the annual value of any lands and heritages has been assessed on the basis that local rates in respect thereof are payable by the landlord, that value shall be reduced to such amount as would have been assessed if those rates had been payable by the occupier.

The Clause presents the compromise that was reached between the Government and the Liberal Members who thought in terms of " double taxation."

The original Liberal Amendment had proposed to set off against the land value tax levied on an owner the amount of the income tax deemed to be contributed by him under Schedule A.

The fatal objections to that proposal, with all it involved, have been examined. Mr Snowden's determined stand against it, resolutely facing the possibility of a Government defeat and a dissolution of Parliament, saved the Bill from destruction. It was a wrecking Amendment and was frankly described as such by Sir Stafford Cripps on 30th June in the later stage of the debates.

The revised plan subtracts a multiple of the Schedule A " annual value " from the land value assessment, subject to the provision that in no case shall the amount so deducted exceed seven-eighths of the land value. This means that the minimum charge of land value tax on any land, however much improvement it carries, will be equivalent to one-eighth of a penny on the whole amount of the actual land value. There will therefore be a levy on the land value of all land excepting that which is specially exempted under other provisions ; and it will be an " additional tax " despite the protestations of alleged injustice that gave birth to the original Liberal Amendment. It is an infinitely better solution than the plan the Liberal Members at first put forward. But it has serious faults of its own, showing that there is no escape from wrong-doing when any departure is made from the straightforward principle of a uniform tax on land values. This question of " taking Schedule A into consideration " has often been discussed but never fully explored as a practical proposition. The length and the complexity of Clause 19 show how difficult it has been to give expression to an idea that it is so easy to suggest. The plan now adopted does, in a measure, take Schedule A into consideration, *but not so as to reduce or remit taxes on improvements* which should be the object of any such adjustment. That, however, is a question apart. We have to look at the operation of the plan as it is. One of the anomalous results should not escape attention.

Landowners will be relieved who do not pay income tax although their property is assessed to Schedule A—the owners of land that carries empty houses, shops, warehouses and office buildings. There is much land of the kind now being withheld from use, as may be judged by the numerous TO LET and FOR SALE boards. It is, generally speaking, very valuable land ; and as long as it is not occupied, the application of the formula " multiply and deduct four times the Schedule A assessment " will release the landowner, who contributes nothing by way of income tax, from the land value tax he ought to pay. The healthy operation of land value taxation will be withdrawn just where it should exercise great force as a means to help industry by destroying speculation in land. Some provision was necessary in the Clause to prevent the compromise scheme working out in that fashion,

The reason why *four times* the "annual value" for Schedule A purposes has been chosen as the multiple seems to be that a given standard of development was in mind for a well-improved property—namely, that its total value (land and buildings) will be made up of four-fifths improvement and one-fifth land value. It is further assumed that the total value of such a property will be twenty times the assessed "annual value." Accordingly four times the "annual value" will be one-fifth of the total value, which is the same as saying that four times the "annual value" will be equal to the land value of a normally well-developed property. It follows that the owners of land developed up to or beyond that standard (owners deemed to be subject already to a full measure of income tax) will not pay any land value tax excepting the nominal charge equivalent to one-eighth of a penny. It follows also that the land value charge will increase in the degree that four times the "annual value" is less than the actual and original assessment of the land value; and where the land is not improved at all—or is not for any reason subject to Schedule A income tax—the land value charge will equal the full 1d. in the £. The general result is a sort of graduated land value tax balanced against what is said to be a tax on land ownership under Schedule A of the income tax.

The formula is admittedly the outcome of a political compromise. It adopts a standard that is purely arbitrary and has no economic foundation, so far as any criterion of "full development" is concerned. It simply decides that where the improvements on any land are at least four times as valuable as the land itself, the full quota of the designed relief will be given—irrespective of the amount of land value the owner may be enjoying. It is on record that wherever the value of land has been separated for purposes of assessment, the ratio of land value to improvement value even of properties that are fully developed varies within very wide limits. If this were not true, the law of rent would not hold—that is to say, rent is not determined by the expenditure incurred on any land but by the higher yield that will come from a given expenditure on one site as compared with another. For example, in the centres of cities the full value of the site is taken out by a building that is not more valuable than the site itself; the improvement is 50 per cent or less of the total value. But in the suburbs, the improvements make 80 to 90 per cent of the total value, as in the case of houses of £600 to £800 erected on plots worth £70 to £200. The result of the formula will be to discriminate between landowners of fully developed properties who will not pay the same tax per pound of land value each enjoys.

In the Debates on Clause 19 when the application of the formula was discussed, the basic consideration that the relation between land value and improvement varies widely came to the front as never before. It was well though not fully stated in Mr Milner Gray's speech (30th June) that had much notice. Although he was seeking to justify the new Clause because it did something to prevent "double taxation," the principle he had grasped was proving to him that when a land value tax is substituted for existing taxation, national or local, the so-called "double taxation" is inevitable. There will be well improved properties, in respect of which, when that transference is effected, the land value tax will take *more* in revenue than does the present system. And rightly so. The high land value—also high in relation to the improvements—will contribute its proper proportionate share. It is for the Liberals and others who affected so much concern about "additional taxation" to try out this aspect of the case when next they speak of the rating of land values or the complete abolition of Schedule A. It will be found that all the arguments adduced for the Amendment that caused so much storm will collapse like a house of cards.

The notion that the Schedule A income tax calls upon the landowner to pay 4s. 6d. in the £ needs considerable revision. The facts have been grossly exaggerated. While the standard rate of income tax is 4s. 6d. in the £, the effective rate any individual pays depends on his personal circumstances. As it happens, the net revenue from Schedule A is not more than £25,000,000 a year. It works out on the average at 1s. 3d. in the £ of "annual value." The vast majority of home-owners are people with incomes of £350 to £600. How are they affected by income tax on Schedule A or any other Schedule? As an example, take the married man with two children who has an income of £480 including £40 as the "annual value" of his house. The effective rate of income tax in his case after deduction of abatements and allowances is 3½d. in the £ and that is the rate which in fact falls on the annual value of his house and land, while the actual amount of tax on the land alone is negligible. It is ridiculous, therefore, to make calculations with a 4s. 6d. income tax as the basis. The argument, if there is anything in it, applies only to the income tax payers in the wealthiest classes. But the argument itself is disputed. There is nothing to support the claim that the public value of land, which the Bill will ascertain, should remain in private pockets because the individual concerned is already a taxpayer under some other code.

A final word on the Clause as the administrators of the Act must see it. The draftsmen had to take every precaution in clearing the way through something like a labyrinth. The Schedule A assessment has its own peculiarities and will have to be adapted in a number of cases before the arithmetic begins. There must be adjustments in view of "cultivation value"; other adjustments to revise Schedule A as if minerals now included in the assessment had no value; other adjustments to invent a Schedule A "annual value" where it does not exist; other adjustments where the land unit under the Bill is not the same as the unit for Schedule A; other adjustments again to meet the case that in Scotland the Schedule A assessment is on a different basis than in England. The clerical department will have to take account of every property that is built during each year or undergoes structural alteration, because every new building or alteration makes necessary a new Schedule A assessment; and on each occasion a new entry must be made in the land value register so that the "annual value" may be multiplied and deducted according to the formula. This additional work is likely to prolong the valuation and add to its cost. There is an opening also for more objections and appeals than would otherwise be made against the Schedule A assessment, since that will so largely determine, by its multiplication and subtraction sum, the amount payable to the land value tax.

While it is written with regret that the Bill has been modified on those lines, it is to be recognized that there were over-ruling political circumstances and that the sentiment in favour of concessions to the property owner as income tax payer has some vogue.

It is unfortunate that the methods of tackling the "Schedule A problem" were not left for later consideration, when the initial tax on land value had been safely launched and was beginning to yield revenue. The miracle is that no more damage was done to the simple and workable provisions of the Bill in the ordeal through which it went. The solid structure of the measure is not affected. That is the triumph of the Chancellor of the Exchequer. What counts for everything is that the land valuation which was in the Bill is also in the Act.—A.W.M