

Land Values and Land Taxes

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It has often been stated by Georgists that there is a contradiction in some of our propositions. We say that we want to tax land values so heavily that the whole economic rent is socialized. But on the other hand we say that taxing the rent 100% leads to a fall in the selling price of land to zero. How can land values then be taxed if there is no value to tax?

The point is, of course, that the selling price of land and the land value are two different things. The land value is a capitalization of the rent, whereas the selling price is a capitalization of that part of the rent which is left to the landowner untaxed.

But if we assume a system where the land is taxed according to the selling price (this is the case in Denmark), then it is correct that it is impossible to confiscate the whole economic rent.

I have set up a small economic model to account for these relations, and I have assumed an economy where the selling prices of land are taxed:

$$1) T = tV, t > 0$$

T is the total tax revenue from the land tax, t is the land tax rate (in Denmark this rate is in general about 0.02), and V is the selling price of land.

How is V determined?

$$2) V = (R - T) / i, i > 0$$

2) states that V is a capitalization of the untaxed part of the rent R . i is the market rate of interest.

The two variables to be solved are T and V ; the other variables are assumed to be given outside the

system. Solving these two equations leads to:

$$1)' \quad \frac{T=tR}{i+t}$$

$$2)' \quad V = \frac{R}{i+t}$$

1)' tells us that the rate at which the rent is taxed is $t/(i+t)$, which is always less than zero. It is impossible to tax the whole rent. If we assume, as an example, that t were equal to i , then 50% of the rent would be taxed.

I think that my model shows that if we want to evaluate whether a land tax rate is "high" or "low" we must compare that rate with the market rate of interest. In Denmark we have land value taxes collected by the local authorities, generally about 2%. The Danish rate of interest is about 12%. Consequently about 14% of the Danish rent is taxed.

One should observe that lowering the rate of interest in a system as the Danish, is exactly as good as increasing the land taxes, as a decrease in the rate of interest leads to increased selling prices of land (not to increased rent, of course).

My model shows that we need to be able to assess the rent; it is not sufficient to be able to assess the selling price of land. However, it would be easy to use the Danish system of land value taxation to implement reforms which point in the right direction - we need only increase the land tax rates.

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