

# The Danish Land Values Commission

## An Explanatory Memorandum

The Danish Finance Minister appointed in March 1948 a mixed Commission to consider the proposition, in all its bearings, that the whole amount of the economic rent of land be collected for the public benefit ; that is to say, adding together the amount at present being collected through the agency of the existing land value taxation and the amount that is still being privately appropriated.

The twenty-four members of the Commission included representatives of each of the political parties and of societies of tenants, farmers, landowners and mortgagees ; also individuals with specialist knowledge as well as officials from several ministerial departments.

Thirteen of the members, constituting a majority of the Commission, make recommendations directed towards the total collection of the rent of land. Besides this Majority Report, the volume contains the separate reports of other members who, in their attitude to any extended application of the principles of land value taxation, were either non-committal or critical or definitely hostile ; and distinguished among the last named were the spokesmen respectively of the Conservative party, the Moderate Liberal party, the Land Credit Bank and the Copenhagen Landowners' Association.

The thirteen-member Majority set forth their proposals in the draft of a Parliamentary Bill which would provide for the annual levy of a "land-rent-charge" superimposed on the existing land value taxation, this land-rent-charge when fully implemented being at the rate of 4 per cent of the assessed capital value of the land (that is, of the land apart from any buildings or other improvements thereon). The thirteen members were agreed that by this means the total collection of the economic rent of land could be effected. But, to specific proposals in the Bill, by which the State would be committed to indemnifying the landowners in sums equivalent to three-

quarters of the value of their land, there was dissent on the part of six of the members. Their views were expressed in separate memoranda. The seven other members stood for the Bill as a whole with its provisions for this payment to landowners, this compensation or "settlement" as it was called.

Coming to that matter later, it is interesting to observe that the reporters, as a body, in their over-all approach to their problem take as a model those holdings now some 8,000 in number and spread over Denmark as a result of alienating and partitioning of land that has come or is coming into the possession of the State (through the legislation of 1919 dealing with the then entailed estates and the glebe lands). There, a distinctive form of individual land tenure is set up. The new holders are given the title to the land and they enjoy the rights of freehold. But they pay no purchase price for the land. Instead, they render to the State the economic rent of the land which is now figured at 4 per cent of its capital value as that is assessed at each periodic valuation of the whole country; and their tenure endures securely so long as they pay that rent based as it is upon periodic valuation. Moreover, as land holders, they are subject to the real estate taxes, national and local, which every other landholder has to pay. Thus those particular landholders, established under the "land rent usage" tenure, pay not only the existing rates and taxes on land values but also the land rent as described above.

The reporters take that form of land tenure as a model, and they envisage the establishment of the same conditions for every land holding, rural and urban, throughout Denmark. Their answer to the question: "How to collect for the public benefit the rent of land that is still being privately collected?", is simply this—superimpose on the existing system of land value taxation a land-rent-charge of 4 per cent per annum on the assessed capital value of the land, revisable as that will be at each succeeding general periodic valuation. Yet, several questions or problems suggest themselves. Can it be said that this 4 per cent charge, so based, will absorb the whole of the (remaining) land rent? If it does, then the land will cease to have a selling value. How then arrive at a capital value on which the land-rent-charge shall be based? By some notional process at which valuers are

adept or can be made so ? It is a valuation problem touched on by the reporters who would retain the estimated capital (selling) value of the land as the standard of assessment ; and reasons are given, not altogether easy to follow, why the adoption of the *annual* value of land as the standard is unacceptable, for being too great a breach of Danish tradition and practice.

But to return from the theoretical to the practical : There is the interplay of the existing land value taxation and the new land-rent-charge as the two forces that are joined in collecting all the rent. The reporters point out that, given the land-rent-charge with its yield going to the State, it would not be necessary to increase the national land value tax ; moreover, the tax on increments in land values would in the natural course be merged in the land-rent-charge. As for local taxation, the reporters give weighty consideration to preserving and even extending the powers which now enable the local authorities to levy their rates on land values or to take a greater proportion of their revenues from land values and so reduce the local income tax. But since the local authorities with their local rates, and the State with its land-rent-charge, will be in competition for their shares of the total land-rent, care is necessary to prevent the local authorities mopping up so much rent that the market value of the land will diminish and with it the revenue to the State from the land-rent-charge. Therefore, in the circumstances, certain restrictions would be applied in the field of local taxation. Local authorities would be permitted to increase their land value rate in so far as there is a gradual remission of the rate on buildings and improvements ; but beyond that, their land value rate could not be increased by more than one-half per cent every fourth year. The inference in the Report is that, at this rate, it will take 40 years before the rates on improvements are wholly removed. And this is the sole proposal the reporters themselves make for reducing taxation, recognising however as they do that the whole matter of tax-reform is under consideration by the government ; and anticipating that when the land-rent-charge is initiated and later fully implemented (together with the future increase in land values), preference will be given to the remission of those taxes that bear most heavily on industrial life, earned incomes and general consumption.

To come now to the main proposition. It is stated in the notes on the Bill :

"According to the proposal *fuld grundskyld*\* with special concessions in the transition period is to be carried out by requiring that all properties shall be subject to a national land-rent-charge like that which is payable in respect of the holdings which since 1919 have been created by the partitioning of land in public ownership."

"This land-rent-charge is to be fixed, as it is now fixed for those holdings, at 4 per cent per annum of the land value at which the land is assessed under the land valuation current at any time. . . ."

"Consideration has been given to the need for special concessions in the course of carrying this into effect."

"It is therefore proposed that the land-rent-charge be reduced by 3 per cent of the land value as it was at the latest valuation made before the law comes into force, but this abatement does not apply to present taxable increases in land value."

(The land-rent-charge would thus be reduced temporarily to 1 per cent and on the basis of the present taxable land value it would yield an annual revenue of 80 million crowns.)

"For properties that have changed ownership since the last valuation but before the next (the 11th) general valuation the abatement shall be reckoned on the basis of the latter, having in view that possible increase in the land value since the last valuation has in most cases been to the benefit of the previous owner."

"In order to meet the financial effects upon the owners and also to safeguard the interest of mortgagees, it is further proposed that this abatement of the land-rent-charge will not cease (i.e. the charge will not rise from 1 per cent to 4 per cent) until there has been paid a settlement sum of 25 times the amount of the abatement, either in cash or in 4 per cent State bonds, for later redemption within a term of 60 years, this being considered to be necessary to discharge the total commitment resting on

\*The full land value duty, i.e., land value taxation carried to its full extent.

the State, which is likely to amount to a sum of about 6,200 million crowns."

"So that those who would buy land or built-upon property, immediately on the adoption of the reform, may be placed in the same position as if the property was subject to the full rent charge, the new owners shall be able to claim payment of the settlement; and also, to help in the financing of building operations, it is proposed that the settlement can be claimed after rebuilding or new building to at least the same amount as the settlement sum."

"No rules have been laid down in what order for various property groups or at what speed the distribution of the settlement sums shall take place, since regard must be had to the economic conditions ruling at any time during the settlement period."

"If on administrative grounds it is found appropriate or convenient that settlement be made in respect of the smallest properties, immediately after the law takes effect, that also will be considered. . . ."

"It will be possible also to provide that the settlement shall be paid in cash where special reasons justify, as for example in the purchase of land for establishing new agricultural holdings or the erection of new dwelling houses. . . ."

"One has not felt called upon to offer any special recommendation as to the tax sources which should supply the means for meeting the cost of the settlement. But it is conceived that this shall be effected in such a manner that productive activity in the community and the incomes and consumption of ordinary folk are not laid under increased tax pressure."

#### The Reservations

As stated earlier six members of the thirteen-member majority dissented from the proposed payment of compensation to landowners. They were Hans Andersen of the Tenants' Association; Holger Eriksen and Fr W. Teichert, Social Democrats; K. J. Kristensen, chief of the Land Valuation Department; Professor Kjeld Philip, the economist; and Karl Skytte, the Radical Liberal M.P.

MESSRS. ANDERSEN, ERIKSEN AND TEICHERT, in a joint statement declaring that in certain points they could not support the proposal, said that there would be unfortunate economic effects if the State committed itself in advance to accumulate a capital sum up to 6,000 million crowns requiring payments through 60 years of something like 100 million crowns annually. . . .

MR. K. J. KRISTENSEN wished to make reservations with regard to the provisions in the proposals for the transition period which allow the owner to claim a settlement sum of three-quarters of the present land value, when the abatement of the land-rent-charge ceases. Seeing that the proposal in other respects rests generally on the recognition of the community's right to community-created land values and that it aims to lessen the taxes on the earnings of labour and on labour-created values (which taxes exist because of the absence of fuld grundskyld) this settlement plan—which anyhow will give more than full compensation for abating the land-rent-charge—seems to go much farther than can be reconciled with the basis and objects of the proposal, and must weaken the social and economic effects of its adoption.

The service of a settlement sum of about 6,000 million crowns will correspondingly restrict the possibility of tax remissions, and the redemption of the sum will on the contrary lead to an increase in taxation which, even if the redemption is spread over 60 years, will be greater than the amount that the 1 per cent of present land values can bring in. A commitment of those dimensions, undertaken when times are good, can involve a considerable risk upon the State and the taxpayers which is aggravated by the fact that the settlement sum also includes pure speculative values. . . .

The carrying through (of the fuld grundskyld) should not be delayed or weakened as to its effects by transition arrangements that go further than necessary in order to have reasonable regard for that section of present owners—particularly the larger owners—and for the mortgagees, who may incur difficulties by the change ; or in order to meet the consequent effects on credit institutions, and savings and insurance policies.

This can be looked after in sufficient degree without any special compensation to landowners, by maintaining for a certain

number of years the abatement in the land-rent-charge, which is found to be necessary on the law taking effect; and let the abatement cease in the course of a longer transition period at the same time increasing the tax remissions which the increase in the land-rent-charge will make possible.

Instead of this "settlement," its discharge spread over 60 years, it is here proposed that the abatement in the land-rent-charge be upheld for 10 years after the passing of the Act; and thereafter that it be dropped by one-sixth (one half per cent) every tenth year so that it will be wholly cancelled 60 years after the passing of the Act.

PROFESSOR KJELD PHILIP suggested it was reasonable that the State L.V. Tax be increased by 1 per cent, but it was desirable first and foremost to see that the increment tax appropriated the whole amount of the increase in land values, so that it would be made certain that all future growth in land rent accrues to the public, whereby also it would be assured that land prices would not rise above their present level and that the State would in future obtain a revenue for the reduction of other taxes. . . . By thus securing the whole increase in land values for the public benefit one would avoid the proposed compensation scheme (the settlement) and the administrative difficulties connected therewith.

MR. KARL SKYTTE puts clearly in a few words the main proposals in the majority report:

- (1) The immediate levy of a 1 per cent land-rent-charge.
- (2) Thereafter in the course of some 60 years a land-rent-charge of 3 per cent—the reform gradually effected during the 60 years and those property owners on whom the 3 per cent charge is levied will be paid a once-for-all compensation of 25 times this new charge (for example, a property owner who has a land value of 20,000 crowns will bear, in addition to the above named 1 per cent charge, an annual tax of 600 crowns and he will receive a payment once-for-all of 15,000 crowns. The total 4 per cent charge will in future be based on the land value as assessed by periodic valuations).
- (3) The compensation (15,000 crowns as in the case cited) will be payable by the State by giving the proprietor

4 per cent State bonds to an amount corresponding to the compensation.

- (4) The State's expenditures on compensation will thus, over a period of 60 years, amount to 100 million crowns a year, which the State will have to find by imposing new taxes.
- (5) It will take 40 years to get rid of the existing taxation on buildings and improvements.

Mr. Skytte speaks of the 1 per cent land-rent-charge being imposed "without compensation," here meaning by "compensation" something quite different from the use of that word in connection with payments to landowners. He means that there is no equivalent removal of taxation from buildings and improvements. He pleads that land-value taxation reform should be instituted by at the same time repealing over a shorter period the taxes on buildings, which today amount to about 150 million crowns. But "the reduction of the unjust taxes that fall upon labour and consumption will be almost entirely left out; while the 1 per cent land-rent-charge will bring in 80 million crowns annually, it is necessary at the same time to impose new taxes in the amount of 100 millions a year to finance the compensation payable to landowners. . . . Instead of a plan for *fuld grundskyld* requiring such a distant future as 60 years for fulfilment, with meagre effects in any time that can thereafter be foreseen and with considerable injustice as well as large and costly transition difficulties, there should be a further development of the existing system of land-value taxation on a basis which will in the course of a short time produce its effects in hindering the private capitalisation of socially created values."

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