

# Land-Value Taxation Under Scrutiny

THE CANADIAN TAX FOUNDATION EXAMINES THE CASE FOR L.V.T.

Summary and review by E. P. MIDDLETON

**A**RE there circumstances under which land-value taxation can be neither successfully applied nor justified?

The answer to this question is important. It is the sort of question that is being asked in many places today, and it is being answered in the affirmative by people who, in doing so, demonstrate an inadequate grasp of the basic principles. It is often said, for instance, that land-value taxation may be all right for countries like Australia but impracticable for Great Britain. The arguments used are invariably vague and are based on prejudice rather than logic. But since they are so frequently made by people with reputations in public life, they should be subjected to critical examination and their faults exposed.

The Report of the fifteenth conference of the Canadian Tax Foundation, held in Montreal in 1961, offers just the sort of critical examination required. Four papers were read to the conference by prominent citizens comprising a leading planning official, a government financial expert, a taxation research officer and a county assessor. And in their arguments are to be found an effective answer to our opening question once and for all.

To clear the ground and to narrow the discussion to serious argument, it may be said at the outset that the comments offered by the county assessor, Mr. G. D. Hepditch, may be discounted almost completely. They are nothing but the ill-considered thoughts of a man dominated by prejudice and almost incapable of logical reasoning. The one exception which may be made in his case is his assertion that "the trouble (inadequate local tax revenue) lies in not assessing at true value." This contains sufficient truth to warrant its acceptability, despite the unsound premise Mr. Hepditch uses as his basic argument. This he takes from a statement by Roy Wenzlick *The Future of Raw Land* that "land and buildings become a joint product, similar to a chemical compound in which the various elements no longer exist in their true state." "How can a site have value without improvements?" asks Mr. Hepditch, and thus puts himself completely out of court.

Of the other three speakers, one was whole-heartedly in favour of site value taxation, one was carefully non-committal but completely honest in presenting the arguments for the L.V.T. case; the third was opposed.

Mr. Eric Beecroft, Director of Planning and Development, Canadian Federation of Mayors and Municipalities, Ottawa, was concerned with the problem of proper land use. He was equally concerned with the "sky-rocketing" cost of land. He admitted that the causes of this constant rise in value are, one, the obvious "fixed" quantity of

available land and the pressure of urban population and development, and two, the public services and amenities paid for largely by taxpayers, which "make the land accessible." He further admitted that local government revenue comes mainly (in Canada) from the "assessment of buildings and other improvements resulting from the investment of public and private capital." He agreed with Mr. Hepditch's observation that "this vast community-created increase in value is very lightly taxed." He even said, in speaking of municipal responsibility for urban renewal; "experience seems to suggest that municipalities, by failing to relate land assessment to market value, are losing a valuable source of revenue and are bearing a higher burden of the cost of renewal than they should."

"Careful enquiry seems necessary", he said, "before any decision to shift the tax burden entirely on to land-value would be justified" and he gave as his reasons for this that municipal governments may be loathe to reduce taxes on improvements at a time when the public appears to demand a wider range and a higher standard of community facilities, the possibility of utilising other sources of taxation, the possibly large increase in "mill rate"\* thereby "creating a serious psychological difficulty" and "the arrangements which could be made with senior governments for the financing of community services." There were also, he claimed, a number of technical and political problems; there was the question of "equity affecting the rights of existing owners" and "questions regarding the relationship of zoning to property taxation" — referring to green belts and control of urban sprawl.

After stating that some Canadian assessors feel that the technical problems of assessment might be formidable under land-value taxation, he recommended circulation and study of the Report of the New South Wales Parliamentary Committee of Enquiry into Local Government Revenue (1959/60) and said "superficially, at least, the evidence from Australia and New Zealand which seems most impressive is that, of the very large number of municipalities which adopted site taxation and 'untaxed' improvements two generations ago, very few if any have abandoned the system."

## THE CASE AGAINST

The case against land-value taxation was presented by Mr. D. H. Clark, of the Federal-Provincial Relations Division, Canadian Department of Finance, in clear, unequivocal language which, unlike that of Mr. Hepditch, demonstrated a study of the subject, a thorough grounding in the claims of advocates of land-value taxation and a

\* 'Mill rate' is the Canadian equivalent of 'rate in the £1'

mind open to reason and argument. Mr. Clark can be shown to be wrong, but at least his case is worthy of respect. He stated the six main claims made in favour of land-value taxation and examined each one in turn. And, as an indication of the quality of his analysis, an early statement may be quoted: "When we consider land, we find that we have a singularly unique object, because the supply of it is almost completely fixed and can be neither increased nor decreased by changes in taxation. It follows from this that the normal shifting (of tax) mechanism cannot operate, and accordingly the burden of tax on the owner of land is not passed on, to the occupant or anyone else."

In discussing the change of spread of the tax after adoption of land value taxation, he agreed that "a most important result of site-taxation is a general reduction in the average tax on home-owners accompanied by a general increase in average for owners of down-town commercial properties." And, on the subject of slum properties in "blighted areas," he assumed these would be "largely unaffected by site taxation" on the grounds that their average improvement-land ratio tends to equate that of the whole municipality. He concluded, however, that under-assessment could be an important factor in the result. On the subject of agricultural land his conclusion was that, on the whole where the community was mixed and contained substantial amounts of non-farm property, farmers' tax would be increased, possibly seriously under land value taxation.

In analysing the six given claims in favour of land value taxation Mr. Clark's arguments may be summarised as follows:

**1. Speculation in land values would be greatly reduced.**

The claim is greatly exaggerated. The greatest land boom in Western Canada's history occurred in 1909-13, when site-taxation was at its zenith. The reason: the huge profits accruing to the holding of land in a boom are scarcely affected by the increases (even quadrupling) of land taxation. (*The premise of his argument was challenged, later, by Mr. Bronson Cowan, who showed that land value taxation in Western Canada came in too late to operate successfully either to check the boom or cushion the inevitable crash.*)

Speculative gains from land are not as harmful as commonly believed. Examples: Speculators may actually perform the community a useful service by combining parcels of land into tracts suitable for development; and the holding of land over a period of years may prove a boon to the community which finds a great need of vacant land for some particular purpose—whether public or private (!) Also, the large profit on a sale of land goes to the developer. This is beneficial as being one of the strongest contributing forces to urban development today.

Assuming it to be desirable public policy to curtail the existing volume of land speculation, a capital gains tax

on land is to be preferred.

**2. The increased tax burden would lessen the economic evil of unused and undeveloped land.**

Agreed in principle; also it would tend to result in a more compact urban development with reduced costs of running a city. But this might induce excessive high building on small lots, intensifying traffic problems. The contention that zoning would control this is admitted to be valid, but it was doubtful that the pressure of economic forces in the direction of increased density could be checked.

**3. The stimulation of building development by reducing the price of land.**

It is not true that land will generally tend to fall in price; this is impossible in the nature of things; the most that may be expected is a fall in areas of high site-taxation and a rise in areas where the tax is low. (*This contradicts his previous and following statement, both correct, that the tax on land value is not "passed on"; i.e. the differential between values of various plots remains unaffected.*)

The argument that the removal of tax on improvements should stimulate building development is accepted, but even here a "direct" method of encouraging new building only is preferred — by a device such as exemption from tax for the first five years.

(*This is based on the assumption that "site-taxation reduces taxes on old buildings as well as new ones," but ignores, even if this were true, the fact that this would encourage the owners of old properties to improve or modernise them and thus contribute substantially to the overall urban development.*)

**4. The site tax cannot be shifted from the landholder to anyone else.**

Subject to certain qualifications, this contention appears to be correct. But, if in practice it proves to be so, it could involve hardship to property owners through lowered incomes and reduced re-sale value. (*With this proposition, of course, advocates of land value taxation could only agree. Obviously, somebody is going to suffer some loss of anticipated profit through the reform of a bad system. But they would share in the general gain in varying proportions.*)

**5. That the shift of tax from improvements to land would favour home building in preference to down-town commercial property.**

This is generally true. It is the explanation of the strong support for land value taxation in such countries as Australia and New Zealand. As to the predicted result of favouring home building in preference to commercial property, there are reasons for believing it would be harmful rather than beneficial. One of these is the tendency towards a general decentralisation of our cities due to the increase in down-town taxation.

(*Again the economic fallacy that land value taxation would drive people to "cheaper" land. Since the tax*

would be proportionate to value, the relative values of plots, down-town or up-town, would remain as before. No attempt is made to differentiate between the varying classes of users, tenants, freeholders, etc., and the varying states of development of properties).

Another reason is the additional subsidisation of a minority of residential property which would arise where old and small owner-occupier houses stood upon valuable land, and the owners could not afford the land tax.

*(Lucky owners of valuable freehold land should sell out while the going is good and buy a better house on less valuable land).*

#### **6. That it would contribute to the redevelopment of blighted areas.**

There is very little to substantiate this claim. Slum property owners would do virtually nothing if subjected to site-taxation. There is almost nothing they could do, because the only answer is to redevelop the entire neighbourhood, which requires powers of expropriation, public funds, public approval and public direction. It is utterly naive to suggest that owners of individual properties in a slum area will attempt to improve their own properties while all around them is sordid blight.

*(This, surely, is the weakest and most illogical of all Mr. Clark's arguments. It assumes that such property owners are uninterested in the additional profits to be derived from the higher rents which improvement would command. It also assumes that the sordid blight all around them would not be similarly affected by the site-tax and that they would cheerfully pay higher land taxes without attempting to improve their property which could be done RATE-FREE.)*

#### **ABILITY TO PAY**

Mr. Clark then raised the issue of "the fundamental principle of equity and soundness of taxation." And in relation to the "three very important principles of ability to pay, benefits received and stability," he found land value taxation to be unacceptable. In the case of "ability to pay" he used the example of two identical adjacent plots, one carrying a ten-storey office block, the other being an unimproved parking lot—and ignored completely the basic argument in favour of land value taxation that the owner of the latter would be induced to develop his property by the imposition of the site-tax, the rents to be derived therefrom providing the ability to pay.

In relation to "benefits received" he made a similarly unsound assumption that certain municipal services do not directly benefit land at all—i.e., police and fire services and garbage collection. Yet, in his next sentence he admitted that such services "do, of course, affect the selling price of land."

As to the principle of "stability" he said: "It is difficult to think of a more unstable tax base than an object such as land, completely fixed in supply and therefore subject to violent fluctuations in price." An astonishing attitude,

especially in view of his own statement, a little later, that "violent fluctuations in the general price of land are much less likely to occur today than several decades ago." Besides where today do we see land values "violently" going up and down?

He then falls back on the argument that comparisons between conditions in Australia and New Zealand, on the one hand, and Canada, on the other, are fruitless because of the fact that "the role of municipal government there is narrower than in any other English-speaking country," meaning that the State is responsible for such services as education, police, hospitals, water supply, etc. But how this can be a factor in disproving the soundness of one method of raising local government revenue as against another it is hard to see, and Mr. Clark does nothing to elucidate the point.

For the rest of Mr. Clark's argument and his final conclusion, it is really only necessary to say that his position is that of an observer of a static scene. He sees the change from the present system to land-value taxation only as an unjustified interference with the *status quo* which can be better improved, if improvement is necessary, by other methods. He seems quite unable to visualise any long-term or ultimate benefits which would lead to a more equitable sharing of the tax burden. One cannot help the feeling that, if Mr. Clark were to look more closely at his own admissions of the more obvious benefits of land value taxation, it would not be long before he was as much in favour of it as its present advocates.

#### **UNASSAILABLE LOGIC**

Mr. H. Bronson Cowan's paper should have left little doubt in the minds of his listeners as to the soundness of land value taxation on any and every issue raised by Mr. Clark. His statement was one of the most comprehensive ever made on this question. After outlining the features of the three systems of local government taxation in current practice, he ranged over the countries of the Commonwealth and the U.S.A. for examples of them and their effects. He referred to the frequency with which different communities have found it necessary to investigate their local taxation system in the light of widespread unsatisfactory conditions—near-bankrupt municipalities, uncontrolled speculation in land, vast housing shortages—and quoted from numerous reports of such investigations, all pointing to the need for the adoption of a method more calculated to restore equity and to encourage, rather than penalise, sound urban development.

Extensive examination was made of the actual working of land-value taxation in a number of countries and municipalities of widely different character, after which Mr. Cowan proceeded to deal with the well-known argument against the reform demolishing them one by one by the sheer weight of the factual information at his disposal and by his unassailable logic.