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The Valuation and Taxation of Land in Germany

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The historical development of conditions in Germany was dealt with in the author's paper presented to the Third International Conference at Copenhagen in 1926. The present paper endeavours to give a summary of the present valuation and taxation of land in Germany.

A.—THE VALUATION OF LAND IN GERMANY

The valuation of land must be considered in conjunction with the general valuation of property of which it is only a part.

The *Reichsabgabenordnung* "RAO" (Imperial Tax Law) of 19th December, 1919 (par. 137-161) dealt exhaustively with the question of property valuation. The taxation of property, however, was of such importance in Germany after the war, and especially after the inflation period, that the regulations of the RAO dealing with the assessment of values were deemed to be quite insufficient. Regulations had to be made which allowed a uniform assessment for property tax. So far the valuation of land within the wide territory of Germany had been anything but uniform. Especially agriculture was very unevenly taxed. A uniform taxation was the object of the *Reichsbewertungsgesetz* (Imperial Valuation Law) of 10th August, 1925.

This Imperial Valuation Law serves also another purpose. Under the land tax laws of the 17 German States the land is taxed not only according to the produce (*the yield*), but also in many instances according to *the value*. It happened, for instance, that a given piece of agricultural land was assessed at several very different values at one and the same time: the yield from the land; the selling value including improvements; or a mixture of both these standards; and on a different basis again for the State taxes on real property. Even in cases where the same standard was taken for Imperial and State taxes (as for instance the value of the produce from the land), differences in the valuation occurred. The new Imperial Valuation Law (1925) compels the States to bring their valuations for assessing property taxes into conformity with the valuations adopted by the Federal authorities.

While this Imperial Law prescribes a uniform valuation of property, the co-operation of the Federal States has been sought in making the valuation,

so to interfere as little as possible with the jealously-guarded independence of the States in the matter of taxes on real property. Offices of a joint character have been established, *i.e.*, Valuation Boards or Committees, on which both the Federal Government and the States are represented. These Boards have to effect a uniform valuation of property, applying the regulations of the Imperial Valuation Law.

Under the Imperial Valuation Law the position in law, as far as it affects the question under review, is as follows :

The regulations of the Imperial Tax Law still apply for questions of valuation ; they are partly supplemented and partly rescinded by the Imperial Valuation Law.

Amongst the taxes that are assessed upon the uniform valuation (*i.e.*, the so-called uniform taxes) are first of all the property tax of the Federal Government and such taxes of the States and local authorities as are based on the value of various kinds of property, *i.e.*, the real estate taxes of the States as far as these are levied on values. The States are not tied in the matter of real estate taxes levied on the yield. A uniform value is adopted for the whole property and for certain parts of the property. Under the law these property parts are termed "classes of property." The first class of property is "Agricultural, Forestry and Horticultural Property" ; the third class is "Landed Property."

Landed property according to the Imperial Valuation Law comprises "ground including improvements (especially buildings) and equipment, that is not used for agricultural, forestry, horticultural or industrial purposes." Generally speaking, "Landed Property" means land used for dwelling purposes ; ground property comprises real estate which is let ; it also includes building sites. (Formerly no distinction was made between the two kinds of property, both were comprised in the term "Landed Property.")

The law makes separate provisions for a main valuation and for re-valuation and revisions. The main valuation is generally made as on 1st of January year by year. The interval, however, between one main valuation and another may be longer than one year. The first main valuation, for instance, took place on the 1st of January, 1925, and the second on the 1st of January, 1928.

The actual values are determined as follows :

The valuation of agricultural, forestry and horticultural properties is based on the value of the yield. Under the Imperial Tax Law the yield-value is fixed for the above properties at 25 times the net return, which the property according to its economic position and when worked in the proper and usual way under normal conditions with outside paid labour, would have as an average. This rule is supplemented by the very detailed regulations of the law.

The basis for the valuation of the "Landed Property" is the "yield-value," as far as land that is built upon and developed according to the usual standard of the district, or is used for industrial purposes. In other cases the capital value is taken as the basis. The same applies to land which in respect

of situation or other circumstances is to be considered as building land or land suitable for commercial purposes.

The Valuation Boards give written notice as to the uniform value that has been assessed. An appeal against this decision is possible. The appeal is heard and adjudicated by the "Chief Valuation Board." Against this decision an appeal in law is again possible, which is decided by the "Imperial Financial Court."

The attempt to effect a uniform valuation of property by the Imperial Valuation Law is certainly to be commended ; unfortunately, this law has several considerable defects.

The composition of the ground Valuation Boards is extremely clumsy. The organisation of these new offices can only be termed a complete failure. If it was necessary at all to establish new Government offices, the number of members of these Boards should certainly have been less, so as not to have such quite unwieldy bodies. Whoever has had any dealings with these Boards, will know that they cannot function properly. The working side by side of the officials of the "Financial Offices" and the officials appointed by the State Governments will lead to friction, which has already occurred in preparing the work of the Boards.

Above all, however, we must note several fundamental defects from our special point of view in this Law :—

(1) It does not separate the land from the buildings on, above or under it.

(2) It provides for valuation on the basis of the yield-value—not only in the case of agricultural, forestry and horticultural properties, but also in the case of built-upon land, which, in Prussia, for instance, was formerly assessed on its capital value.

(3) Publication of the valuation results is not permitted.

The Land Tax Laws of the 17 German Federal States treated in the following section are, or will be, gradually adapted to the Imperial Valuation Law, through the introduction of the uniform values as basis for taxation.

B.—THE TAXATION OF LAND IN GERMANY

(Position in June, 1928, and for Prussia in June, 1929).

Under the Imperial Constitution of Weimar dated 11th August, 1919, in force at present, which in a few days will commemorate its 10th yearly anniversary, the taxation of land in Germany was left to the German States.

These various State Tax Laws may be divided in three large groups, according to the basis for valuation used in these laws for the taxation of various objects :

I.—GROUP

Productivity of the Land, etc., or the Value of Product in conjunction with Capital Value as Basis for Taxation (mixed system).

We begin with this group because the largest German State, Prussia,

comes within it, and because the example of Prussia will show in what manner and to what degree the uniform values fixed according to the Imperial Valuation Law are used as the basis of taxation.

According to the "kind" or class of property that is taxed, (1. built-upon land; 2. agricultural, forestry or horticultural property; 3. vacant building land) the States of Brunswick, Prussia and Saxony use as the basis of taxation the "Yield Capacity," the "Net Yield," the "Rent Yield" or the "Yield Value" (generally for agricultural, etc., properties) as well as the Capital Value (generally for land whether built-upon or not). All three of these States use the uniform values fixed according to the regulations of the Imperial Valuation Law. The same applies to Baden, Bremen, Hamburg, Mecklenburg-Schwerin, Schaumburg-Lippe and Thuringia.

To save space and because the conditions are very similar details are only given for Prussia.

PRUSSIA

The development up to 1926 was dealt with in the author's paper for the Copenhagen Conference.

The Law lately in force was based on a Law of the year 1923, under which (because real estate values were completely shattered by the inflation) a value, based on pre-war conditions, was taken as the basis of taxation, *i.e.*, the fixed "Landed Property" value for the former so-called Supplementary Tax in Prussia. This preliminary basis of taxation was to be replaced as soon as possible by a final basis, which should properly express the present productive capacity of the land. The Imperial Valuation Law of 10th August, 1925, solved the question of assessment for the property taxes of the States (levied on the basis of values), by introducing uniform values. After these uniform values were fixed for the 1st January, 1925, a new Land Tax Law was prepared, with a provision that these uniform values should be used as the basis of taxation.

The new Law, however, only provided for the use of these uniform values for agricultural, forestry and horticultural properties, and for land that is not built upon, especially the tracts of vacant land. The introduction of uniform values for all groups of real property was not considered practical, especially for land that is built upon, owing to the special conditions caused by the Rent Restriction Act, etc. The former scale of taxes on built-upon land, and the former basis for taxation, consequently remained in force.

Decisive for the question of the tax scale was the fact that, under the present extraordinary and difficult financial situation of Prussia, the total tax burden could not be lessened; it was therefore mainly a question of shifting the tax burden within the various groups of real property.

In regard to the agricultural, forestry and horticultural properties, the question arose whether a uniform tax rate should be taken. Such a rate would have had to be about 3.3 per cent. of the uniform value in order to bring in the same revenue; and this would have meant for the smaller properties, apart from the very small pieces of land, an increased burden that could

not be justified under the present conditions in agriculture. A moderate graduation in the scale of taxation was therefore adopted with the object of keeping within the smallest possible limits the unavoidable shifting of the burden which would be caused by the introduction of the new assessment.

It was only in the case of building land and similar property that a uniform tax on the uniform valuations was applied, the rate of tax being 3.6 per cent. The other regulations by which the former laws were altered were only the natural consequence of the introduction of the uniform value as the Assessment.

The following table may be of interest, in which a comparison is made between the values, the tax rates and the tax returns before and after the introduction of the uniform value as the basis of taxation:

Kind of Property.	Previous Valuation for Land Tax in 1,000 million Reichs-mark.	Previous tax rate per 1,000 of the value.	Amount of previous Land Tax in million Reichs-mark.	Computed Uniform Value in 1,000 million Reichs-mark.	New tax rate per 1,000 of the value.	Amount of new tax in million Reichs-mark.
A.—Land built upon ...	63	2.4	151.2	30.0	2.4 of the old valuation	151.2
B.—Land used for agricultural, forestry and horticultural purposes	38	average about 2.0	73.0	22.1	3.0 to 3.6	70.0
C.—All other land, especially building land ...	7	3.0	21.0	5.5	3.6	19.8
TOTAL ...	108	—	245.2	57.6	—	241.0

Unhappily these reforms could *not* be introduced. At the second deliberation of the Bill just described, a minority of Conservatives and Communists abstained from voting, and so the Prussian Diet was unable to proceed. Therefore the Land Tax Act which was in force till the 31st of March was simply prolonged for one year. The uniform values as a basis of taxation have accordingly not yet been introduced in Prussia.

GROUP II.

Productivity of the Land as Basis for Taxation.

The Productivity ("Yield-Capacity") is solely used as basis for land taxation in the States of Bavaria, Mecklenburg-Strelitz, Oldenburg and Württemberg.

GROUP III.

Capital Value as Basis for Taxation.

Only the States of Anhalt, Hessen, Lippe and Lübeck use the Capital Value as sole basis for taxation.

I refer in detail here only to the taxation in *Anhalt* which is of special interest, being the only State where taxation in Germany is based solely on the value of land, not taking into account any buildings upon, in or under the land.

The history of this taxation was dealt with in the author's paper for the Copenhagen Conference.

"In order to spare the small properties and at the same time avoid overburdening the large properties," as the Anhalt Finance Minister has declared, the rate of tax was graduated: Values up to Reichsmark 3,000 are wholly tax free; for a value of 3,000 Reichsmark the tax is 1·5 per 1,000; above 50,000 Reichsmark it is 3 per 1,000; for 150,000 Reichsmark it is 3·95 per 1,000; and above 200,000 Reichsmark it is 5 per 1,000. As the assistance of local expert opinion was obtained in making the valuation only a comparatively small number of taxpayers had any complaint or appeal to make against it.

I am indebted for the following statement to Pastor Baumecker, of Leopoldshall, the leader of the Anhalt land reformers, who was present at the Copenhagen Conference: The land tax in Anhalt is attacked strenuously by the Conservatives, especially the large landowners. The present Government is formed by Democrats (Liberals) and Social Democrats and is unfortunately a minority Government, which can be put out of office any moment. At the suggestion of this Government, which thought in this way to ease the difficult position of agriculture and incidentally, no doubt, to make its own weak position more secure, the revenue from the land tax was reduced this year as much as 10 per cent. by lowering the valuation; and the Government budgeted this year for only 1·5 millions (instead of 1·7 millions) from this source. But besides the present weak position of the Anhalt Government the opponents of the Anhalt land value tax set great hopes upon the Imperial Valuation Law and this for reasons that may be gathered from what has been said above against that Law. According to Pastor Baumecker the future of the land tax in Anhalt is very much in danger.

CONCLUSION

At the end of part A we noted, and must note again at the end of part B, that for the taxation of land in Germany the "yield-value" is chiefly used as the basis of taxation. The consequent loss of income, which the States and also the Federal Government (the Reich) suffer in consequence, has to be made good in the States and by the Federal Government through a number of taxes on labour and industry; and by the Federal Government also through Customs duties. It is interesting to ascertain the amount of taxes levied by the Federal Government on each citizen, and how such amount is divided between the various taxes.

If we take the income of the "Reich" from taxes and Customs duties

we find for the current financial year 1929-30 a total amount of 9,500,000,000 Reichsmark. Computed per head of the population, this means that every German citizen has to pay in the current financial year approximately 150 Reichsmark (approximately £7 8s.).

Taken per head of the population, the various taxes are as follow:—

	Reichsmark.
Income tax about	45·00
Turn-over tax "	20·00
Property tax "	10·00
Corporation tax "	9·50
Transport tax "	5·90
Mechanically-propelled vehicle tax... .. "	3·00
Capital tax "	2·50
Death duties "	2·00
Betting tax "	1·50
Insurance tax, Bill tax and Property acquisition tax ...less than	1·00

In addition to these amounts every German citizen has to pay an amount of about 50 Reichsmark for Customs duties.

The taxation of land in the German Federal States will enter upon a new stage when a Bill brought in towards the end of last year is made law. By this Bill it is intended to obtain a unification and simplification of the laws of taxation, or more precisely a unification and simplification of the State legislation regarding the forms of the "Yield Taxes" and their administration. This is so because the Bill, as required by the Reichstag and called "Tax Unification Law," will also contain a "Land Tax Construction Law" applicable to all States.

The aim of the "Land Tax Construction Law" is to make uniform the prescriptions in the Land Tax Laws of the States and Communes. It will decide on the one hand, what shall be subject to land tax, maintaining in all cases the principle that no property or part of a property shall be subject to *both* of the taxes on real estate—the land tax and the business tax. The law on the other hand also will settle the mode of assessment for the land taxes, so as to effect in this respect more uniformity and a better relation between the land taxes in the various States and Communes, also to permit a clear survey of the whole taxation system of Germany. The corner-stone of this Bill—as well as the other proposals contained in the "Tax Unification Law"—is the establishment of a basis of taxation by Federal Law. A ground property, whether used for agricultural dwelling or industrial purposes, shall in future only be subject to land taxation on the basis of uniform values, established according to the regulations of the "Imperial Valuation Law." For the Imperial Property Tax and the State taxes on Real Property there will in future only be one value, *i.e.*, the value established by the "Imperial Valuation Law."

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