

TAX SHIFT or LEASE SHIFT

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"It is not necessary that any new machinery should be created. The machinery already exists. Instead of extending it, all we have to do is to simplify and reduce it."

Progress and Poverty, p.405.

In the anglo-saxon realm, where Henry George lived, local authorities can decide by a poll to shift the tax from buildings to land.

Outside this anglo-saxon realm this can NOT be done, because local authorities are bound by State-law.

Therefore: in anglo-saxon countries the most appropriate machinery may be 'taxation'; outside this realm the appropriate machinery may turn out to be 'long-lease'. "This machinery already exists. All we have to do is to improve and extend it."

Holland

In Holland it is daily practise that the community buys raw land and improves it with streeting, cabling, piping, etc. Then the authority makes a layout of the new quarter and parcels it out to individuals or contractors.

The sites are sold or leased. We from GRONDVEST urge our representatives never to sell the land on which the community can lay its hands, but only to lease it. In a few towns (f.i. Amsterdam, Utrecht and others) lease is already the rule.

Long-lease

A 'long-lease' is attached to the land, irrespective of who rents the site. If you build a house on it and sell it, the buyer of the house is bound to the long-lease contract for that site.

This system exists in Holland from 1896 on. Then the council of Amsterdam decided not to sell any land owned by the community, but only to lease it on long-lease. Quite a number of municipalities throughout the country followed that example. F.i. one-fifth of the territory of The Hague is issued on long-lease. On the other hand many municipalities do not yet have long-lease regulations, or if they have, long-lease is optional. Therefore GRONDVEST is persuading every local authority to stop selling and to lease only.

Betterments

Originally a long-lease contract expired after 75 years on a rent, termed 'canon', fixed during the whole period. Of course, after half a century this canon is far below value. Consequently the 'contract' has acquired a big selling price! For new land, issued today on long-lease, the canon may be up to a hundred times the canon of the old-timers. Therefore in 1966, Amsterdam decided to perpetual lease and to adjust the canons, only for inflation, every 5 or 10 years, coupled to an index of the National Bureau of Statistics; moreover site re-assessments after 25 or 50 years.

Alas, this is but little improvement and only valid for new contracts on long-lease. So besides extending the long-lease system to all communities in our country, we have to improve it.

The machinery already exists

We from GRONDVEST tell the local authority:

- You are accustomed to perpetual lease. We agree on that.
- You are accustomed to lease at the full economic rent at market value. We agree!
- You are accustomed to keep the rent unchanged for a fixed term (sometimes adjusted for inflation only). We urge you to reduce this term to one year and advocate to keep the rent at full value in each subsequent year, as you are accustomed to do for every new issue.

Only then the land will have no selling price; inflation is included in the yearly rent; and there cannot be speculation any longer.

It is not difficult to get most people in favor of this proposal.

Compared with an increasing rate of a local UCV-tax on land, valid for the whole territory, the lease proposal aims at the FULL economic rent for the common benefit AT ONCE, parcel by parcel, for every opportunity the local authority can grasp.

The best way to pay honor to Henry George is not to repeat what he said already a century ago, but to climb his platform and to reach higher.
Let us improve and extend the foothold he gave us, and make progress.

TAX SHIFT and LONG LEASE COMPARED

Tax Shift

Suppose you have bought a site.

Suppose you do not use that site for yourself, but you lease it for \$60 a year.

Now you have to share this amount of \$60 with the tax-collector.

If he asks \$10, there is \$50 left for your pocket. And if you try to sell this site, you will get \$1000 for it (assumed that the rate of interest is 5 per cent).

Now you do not sell but lease it another year for \$60.

If the tax-collector this time takes \$20, only \$40 is left to you. The selling price for this site will be the capitalisation of this \$40, that is \$800.

Only if there is NO tax-collector, so that you can keep the whole \$60 for yourself, you can sell your property for the full value of \$1200.

The rate

A tax of \$10 from \$1000 equals a rate of 1 per cent or 10 mills. (A tax of \$20 from \$800 is a rate of 2½ per cent; a tax of \$30 from \$600 is a rate of 5 per cent). Usually the tax is a percentage of the price, but this price depends on the tax that is taken from it.

If you say that the rate is so many cents per dollar, and you ask 'which dollars', the answer is 'that depends on the rate'. Every increase of the rate in cents per dollar on the market price, lowers that market price. Every cent more is taken from a lesser price.

The confusion is due to the fact that VALUE and PRICE are totally different. Value cannot be influenced by a tax, but the PRICE depends on the rate. In the above example the VALUE is \$1200, but at a rate of one per cent, the PRICE is \$1000; and at a rate of 5 per cent the PRICE is \$600.

The tax is NOT taken from the Unimproved Capital Value (UCV), but from the improved PRICE, the U.P.

It is NOT Site Value Rating (SVR), but Site PRICE Rating (S.P.R.)!

L.V.T. is NOT a tax on the VALUE of the land, but on the PRICE. It is Land PRICE Taxation.

Long Lease Tenure

Today most of all land has an owner, a titleholder. Trespassers will be prosecuted and we have to pay to the titleholder if we wish to make use of his property. We pay tribute for a value which we ourselves have made, among other things by paying taxes. We pay for our own product.

Why? Only because our society has developed in this way during the centuries. Originally the land has been taken by force. But today, whose fault is it that century after century the land still remains in the hands of a few titleholders, to whom we have to pay tribute for the use of 'their' land?

Private property in land is instituted by law. So we have to blame the law, made in our own name by the legislative authority. A purchase deed of land is lawfully filed before a notary. Therefore, there is no reason to fine the landowner for the mere deed of purchasing and own land. We turn not against people but against the existing economic legislation.

Our Roman legislation is made centuries ago. But who sustains these laws? Who is to blame that these laws up to now never are contested? Why do our councillors and representatives in parliament do nothing to improve this legislation? Why does the people vote for representatives who gave and still continue to give their consent to private property in land? We know that every time and again that the effort of the community and its members creates and improves the value of the bare land, hardly nobody resists to the private appropriation of this - our! - value. We know that we lose every year to the landowners an amount of money comparable with the sum total paid already by taxation. We know that we as taxpayers pay TWICE for the use of the land. But whose fault is it?

It is the guilt of the victims themselves!

They still do not vote for the right representatives. It is the people, it is the victims themselves who are to blame for the loss of their birthright to the gifts of nature. You cannot blame the landlords personally, you can only blame the system. And this system remains in operation by the will of the people! So I do not hesitate in approving that this same people be fined for their stupidity.

These victims are fined for their stupidity every day by taxation, already a century long since Progress and Poverty. And these victims will be fined another century, if we do not succeed in one way or another to curb the taxlaws. In our country it seems to be virtually impossible to alter the law. The merit of the long-lease proposal however is that it can be done WITHOUT changing the law, because a long-lease contract is a PRIVATE agreement between the local authority and the renter.

Comparison

We have seen that taxation takes besides the rent, the capital property as well. Specifically only from the owners of the land. With every increase of the rate, we rob their capital too. So they will fight for a decrease of the rate, because they see their capital gains as a "glittering prize". In my opinion the Canberra disaster is due to the fact that private owners were robbed by the tax. If we buy the land we'll have far less opposition.

If an owner of land is injured by taking his land, he has to be indemnified by the taxpayer by whose consent he bought his site. The trick is that, because of inflation and increasing land value, it can be calculated that indemnification can be paid down within 10 or 20 years. Thereafter the people need not be fined by taxation any longer.

This same proposition is made in 1896 in New Zealand. At that time Fowlds c.s. have calculated that the debt of buying the land of New Zealand would have been redeemed in 1925, so that from that date on New Zealand would have been wholly taxfree.

There will still remain another paramount reason to buy. Not for an economic reason, but for a psychological one. As long as land will be called 'personal property', you spoil your principle and you give them a foothold for opposition.

On the contrary, if the land is leased, there are no private owners any longer. The renter is not owner. As soon and as long as the correct rental value is charged, there will be no selling price and no landmarket but only a rentmarket - a market comparable with that of renting farmers on land of a landlord. They pay full rent, they pay no capital value. They do not speak or even think in terms of capital values. During centuries already only the rental value has been in their minds.

What others say.

"Unimproved values raise a far smaller portion today than it did when introduced. The tendency has been away from unimproved values." H.T.A. McGahan.

"The expropriated land could be put up for lease to the highest bidder." -

Mary Rawson.

"...to let it to individual holders, under various forms of leasehold".

A.R. Hutchinson.

"The governments basic policy is to sell leases to the highest bidder at public auctions."

"An Example", Paper 12th conf.

"I believe in a system of leasehold tenure."

Rolland O'Regan.

"It is timely to consider the merits of changing from freehold to perpetual leasehold tenure."

Justice Else-Mitchell.

Indeed: a taxcollector takes 'for a good purpose'.
So did Al Capone. He gave his loot to the poor
and needy of the slums he came from.
Al Capone exacted his victims as a taxcollector does

CONCLUSION

In Australia and New Zealand you are accustomed to shift the rent by a poll. Such doesn't exist in our countries. You may deplore payments for titles to land. But in Holland there is absolutely no other way out than to buy and lease. And every day the start is postponed, we lose the rent for the whole country!

We in Holland do not have the power to get accepted the idea 'to take' the rent. In the minds and consciousness of everyone today, land and rent lawfully belongs to the owners. It's a pity, but already a century long we've missed the train. But if I speak of buying and selling land, they listen. We try to hit them in their pocket, where their brains are. If I tell the alderman in charge of gains in buying land, he will listen. If we should manage to get our proposal accepted, then the eyes of the men in the street will gradually be opened. For the proof of the pudding is in the eating. Maybe that Henry George's idea will come to their minds, so that after a couple of years they will understand what George has said and they will take the rent of all land.

The dogmatic way has had no success almost during a century. Well then, grant me to try it another way round. Let me accomodate in the framework of today's law and reasoning. Let me be 'in' and on speaking terms with this people. Then at least I'll have the opportunity to indoctrinate their minds and to turn and twist them along our line. Up to now we have been only silly idealists - in their eyes - with unworkable propositions.

Maybe you are of the opinion that we embark on the wrong wagon. But if we manage to curb the track and end up at our common goal, you will applaude nevertheless. That is MY way of doing something about it.

"You'll pay for the worst sin ever committed,
a sin that more than anything else is dreadful
in its consequences:
The natural source of life for all
you've treated as marchandise!
And trying to escape the outcome,
Of the world you've made a chaos."

J. Buma:
"The man from Georgia".

Appendix.

"PITTSBURGH PRACTICALLY DOUBLED ITS LAND-VALUE TAX" ??

In 1978 Pittsburgh levied a land value tax rate of 49.5 mills (or 4.95 per cent). The owners of the land paid \$49.50 per \$1000 assessed value. In addition the owners paid \$21 to the county and \$29 to the schools. For their property of \$1000 they paid $49.50 + 21 + 29 = \$99.50$ in all. If the owner counts with 8% of his investment, then \$80 is for his satisfaction. So the annual value of his site is \$99.50 for the taxcollector + \$80 for the owner = \$179.50 in all. This annual value capitalized at 8 per cent is \$2240, being the capital value of his site.

In 1979 the taxrate was increased from \$49.50 to \$97.50. So now the taxcollector takes $97.50 + 21 + 29 = \$147.50$ mills or 14.75 per cent of the assessed value. The owner still reckones with 8 per cent. So the taxcollector and the owner together take $14.75 + 8 = 22.75$ per cent of the assessed value. They share the annual value of \$179.50 proportionally; the taxcollector gets \$116.50 and the owner \$63. Now the assessed value of his site is \$63 capitalized at 8 per cent, that's \$788. (Check it as follows: the tax is 14.75 per cent of the assessed value of \$788, that is \$116.50).

	1978		1979		
Increase of the tax is from	<u>99.50</u>	to	116.50	or	<u>\$17</u>
Loss for owner is from	80	to	63	or	<u>\$17</u>
Loss for the county is from	21	to	16.50	or	4.50
Loss for the schools is from	29	to	23	or	6
Gain for Pittsburgh is from	<u>49.50</u>	to	77	or	<u>\$27.50</u>
	\$179.50		\$179.50		\$27.50 \$27.50

Loss for the owner of capital value from 1000 to 788 or \$112.

Usually assessments are far below real value. So if the new rate is applied on an unaltered assessment (NOT VALUE !), the locally collected part of the tax for Pittsburgh will practically double.

So LVT is NOT Land VALUE Tax, but Land ASSESSMENT Tax (L.A.T.).

Compare this with the Dutch proposal: Every time a site is put for sale, let the local authority buy it for \$1000 or \$788 and rent it for \$179.50. Index this rent every year for real value.