

# Denmark\*

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DENMARK IS THE FIRST COUNTRY IN EUROPE TO HAVE put into practical operation the taxation of land values, and the first country in the world to have a political party of national influence whose chief aim is to make land values the principal and, if possible, the only source of tax revenue in the country.

With each general assessment since 1916 the value of land and improvements has been separately assessed. Such periodic valuations, now made every fifth year, have taken place in 1920, 1924, 1927, 1932, 1936, 1945, and 1950.

Since 1924 an annual national tax on land values apart from improvements has been levied, and since 1926 the local authorities have been obliged also to impose taxes on land values for some part of their annual expenditures. Yet, while the greater part of real estate taxation is now levied in that way, the actual receipts from such taxation as compared to total tax revenue are still quite modest.

\*The material contained in this section, except for what appears in the last three paragraphs, is taken from *Land-Value Taxation in Denmark*, a paper prepared by Mr. K. J. Kristensen and read by him before the Seventh International Conference to Promote Land-Value Taxation and Free Trade, at Swanwick, Derbyshire, England, in August, 1949. Later statistics were supplied by Mr. Kristensen, who is the Chief Valuer of Denmark. The humble task of arranging the material for American readers was performed by a member of the staff of the publishers.

In general, three patterns can be traced in Danish fiscal policies in regard to land:

1. State acquisition of land and its disposal on conditions of payment of the economic rent.
2. Appropriation by taxation of some part of the increases in land values.
3. Shifting taxation from improvements and income to the value of land alone.

Each of these policies gives promise of further progress, and all are at present in the stage of practical politics.

#### STATE ACQUISITION OF LAND

Since 1919 agricultural land belonging to or acquired by the State has been used for the establishment of small holdings. Such land is not sold; instead, the user pays the government a rent calculated at 4 per cent per annum of the assessed value on date of transfer and as revised at each general periodic revaluation of the whole country.

The three land laws accomplishing this purpose were passed on October 4, 1919. One of them provides that parochial or glebe land (agricultural) shall be disposed of for the erection of small holdings, the particular church having the right to reserve seven hectares for its own use. The second law provides that each entailed estate—that is, each estate so restricted that it may be bequeathed only to a certain heir or heirs—may be freed from the burden of the entail if its owner agrees to pay the State one fifth of its value and surrenders one third

of the farmland against payment by the State at its assessed selling value. All owners of such estates took the opportunity offered. The third law and several laws passed later deal with the disposal of the land acquired under the two acts, or of other agricultural land in the possession of the State, and with the financing of the erection of buildings, etc., on the new holdings.

About 8,000 new small holdings have been established under this legislation, and 4,000 others have been supplied with additional land. The total land value represented by these particular small holdings amounts to nearly 100,000,000 crowns.

#### APPROPRIATION OF PART OF INCREASES IN LAND VALUES

In addition to the State and local taxes levied on land values, a national tax on increments in land values is being collected under legislation effective in 1933 and revised in 1950. The rate of this tax is 4 per cent annually. At first it applied to one half of the increase revealed at each valuation made after the general valuation of 1932, but after the law was revised, in 1950, the proportion of increase to which the tax applies was enlarged to three quarters. An exemption is allowed which is proportionate to the general increase of the land value of the whole country, up to 10 per cent, and beyond that to half of the general increase revealed by the 1945 valuation and four fifths of the general increase between the valuations made in 1945 and 1950. For increases after 1950, the exemption is proportionate to the general increase since that date and is figured on the basis of

land values outside of the city of Copenhagen and its suburban areas. There is a further exemption of 10 per cent of the reassessed land value not exceeding 40 crowns per square meter, and of 5 per cent of the value between 40 crowns and 320 crowns per square meter.

The revenue from this increment tax is shared equally between the Treasury and the local rating authority in which it is collected. In 1951-52 the yield from this source was 15,500,000 crowns and the total land value subject to the tax was nearly 390,000,000 crowns.

This tax is of consequence only where there has been a considerable increase in land values caused by local or special circumstances, especially by urban development of agricultural land in the vicinity of the towns and near the city. But it will not generally affect ordinary agricultural land because of the exemptions. However, where land does become liable to this increment tax, 45 per cent of any further increase in value accruing before 1950 and 67.5 per cent of the increase after 1950, in excess of the country-wide increase, are taken for State and local purposes.

An interesting feature to be noted here is that in the valuation of land the incidence of this increment tax is disregarded, whereas general rates and taxes are taken into account to the extent that they affect selling values. In other words, the land is valued as if the increment tax did not exist. In this respect this taxation of increases in land value is treated quite as if a corresponding part of the land had been acquired from the State in the same manner as is done in the case of the small holdings.

## SHIFTING TAXATION FROM IMPROVEMENTS

A national real estate tax is imposed throughout Denmark which is in addition to a similar tax levied by all local authorities. The rate is lower for improvements than it is for land, but the difference is not great. The tax on improvements in the counties is three fifths of the rate on land values, and elsewhere it is three quarters.

The relief of improvements comes mainly through the exemptions. The result of these exemptions has been to relieve a great part of the assessed value of improvements from taxation and, in the counties, practically all of it for agricultural properties.

The exemptions are the most generous in the urban areas where building values are greatest, and are everywhere progressive, increasing with the number of dwellings in any property.

In 1951-52 the national real estate tax yielded 35,000,000 crowns from buildings and improvements and 50,000,000 crowns from land values.

Local taxes on real estate are levied under the Act of 1933, which allows the councils in rural districts to fix their own rates and exemptions within the framework of the law. As regards the city of Copenhagen and the towns, the act sets a maximum rate which, in the city, is 7.5 per 1,000 crowns of land value. In 1951-52, local taxes amounted to 1,216 million crowns. Of this, 204,000,000 crowns came from the tax on land values, 92,000,000 crowns from the tax on improvements, and the rest from a tax on incomes. The following table

shows the percentage of total local revenue raised from land values by the various taxing authorities.

	TOTAL LOCAL TAX COLLECTED ON LAND VALUES* (IN MILLION CROWNS)	TAXES ON LAND VALUES	
		AS PER-CENTS OF TOTAL LOCAL TAXES	PER 1,000 CROWNS AS- SESSED VALUES
Copenhagen	14	4.0	7.5
Provincial Towns	8	2.5	6.1
Rural Parish Districts	100	22.6	18.6
Counties	82	84.1†	15.2
Total for Rural Districts	182	36.0	33.8
For Whole Country	204	16.8	24.3

\*Not including the local councils' part of the tax on increase of land value.

†In the counties there is no local income tax collected and improvements are almost wholly exempt from taxation, owing to the generous allowances applying to them; therefore, the county councils must rely upon land values as practically their sole source of revenue.

### SUMMARY

The periodic valuation of 1950 showed a total land-value assessment of nearly 9,270 million crowns. Of that sum, 260,000,000 crowns represents the tax-free value of improvements that merge in the land, such as draining and leveling, streets, sewers, etc., leaving the total land-value assessment at 9,010 million crowns.

The value of publicly owned land amounted to nearly 800,000,000 crowns,<sup>1</sup> and the calculated rental value of this land, at 4 per cent, is 32,000,000 crowns.

The increment duty already referred to and the rent on the small holdings paid to the State at the rate of 4 per cent are based on a capital value of 490,000,000 crowns.

Deducting from the total land value of the country

<sup>1</sup>This does not, of course, refer to land rented out as small holdings.

the items of 800,000,000 crowns and 490,000,000 crowns, there is left 7,720 million crowns representing land value remaining in private hands.

The corresponding economic rent remaining in private hands—that is, the amount that the land would be worth per annum for use under existing taxation, estimated at 4 per cent, or 309,000,000 crowns—may be compared with the total revenue from land values, 305,000,000 crowns, received by the State and by local communities through land-value taxation, increment duty, rent from small holdings and from the rent on land in public ownership, calculated at 4 per cent.

Accordingly, the result seems to be that, in Denmark, through land-value taxation, the increment duty and public ownership of land, nearly half of the total economic rent is being collected by State and local authorities for the benefit of the whole nation.

Land-value taxation in Denmark is operating successfully, and this is due in large measure to the way in which the assessments are carried out. Each valuation district is small, and the valuations of the properties are made by local people under the general control of a county-valuation board, a Directorate of Assessments, and the Board of Assessments chosen partly by the government and partly by Parliament.

The system of adult education provided through the Folk High Schools has taught farmers in Denmark how to be good managers and has emphasized the important part which land plays in the whole economy. Co-operatives are providing farmers with marketing facilities and are keeping them well informed concerning current

prices and other factors relating to marketing conditions. They exist in almost every branch and have become the very backbone of modern Danish agriculture.

As already stated, Denmark is the first country to have a political party formed for the purpose of making land values the principal and, if possible, the only source of tax revenue in the country. This party, known as the Justice Party, was organized in 1919 and is now represented by six members in the House of Parliament.<sup>2</sup>

In 1948 an interdepartmental commission was established to consider the problems that revolve around the appropriation of that part of economic rent which has not been appropriated by ordinary taxes on land values, and eventually to work out proposals for putting such a measure into practice. This commission has been nominated mainly to meet the wishes of the Justice Party, which has several times presented a bill in Parliament along these lines. Its report is expected late in 1954 or early in 1955.

<sup>2</sup>General election, September 1953. The land-value taxation principle has received substantial support from the Labor Party and the Radical Left Wing Party, and the legislation generally has been carried with support also from the Moderate Left Party.