

THE RIO DE JANEIRO PLAN — By Mr. Americo Werneck, Jr.

RIO DE JANEIRO, the capital city of Brazil, is located in the Distrito Federal (Federal District). The Distrito Federal has an area of 1,100 square kilometres, with a population of 2,014,185 people (Jan. 1st, 1947). The number of buildings amounts to 284,973, of which 53,598 are located in the rural districts. In the period 1941-1947 49,104 new buildings were constructed, which corresponds to an average of 7,015 buildings per year. In the same period 57,273 landed properties were transferred to new owners by sale and 17,770 by inheritance, which corresponds to a yearly average of 8,182 by sale and 2,538 by inheritance. The district is governed by a Mayor (the Mayor of Rio de Janeiro) appointed by the President of Brazil, with the approval of the Federal Senate. The local legislative body is a Council of 50 members (now temporarily reduced to 32 after 18 Communist members lost their mandates when the Communist Party was proscribed).

REAL ESTATE TAXATION

The real estate taxation in Rio de Janeiro (Distrito Federal) is at present as follows:—

(a) A land tax (*imposto territorial*) levied on urban *vacant* land and on all agricultural land, apart from improvements (plantations, etc.). The rate varies from 5 per cent. to 0.5 per cent. on the land values (5 per cent. in the commercial centre, 3 per cent., 2 per cent. and 1.5 per cent. in the urban residential districts, 1.5 per cent. and 1 per cent. in the suburban districts, and 0.5 per cent. in the rural districts). Agricultural land is exempted when owner cultivates at least one-half of the area.

(b) A tax on buildings (*imposto predial*) levied on the annual rental value of the buildings. The tax rate varies from 12 per cent. down to 6 per cent. on the annual rental value (12 per cent. and 10 per cent. in the commercial centre and urban residential districts, 10 per cent. and 8 per cent. in the suburban districts, and 6 per cent. in the rural districts). About 250,000 landed properties pay the building tax (*imposto predial*). About 100,000 landed properties pay the land tax (*imposto territorial*). The two taxes are mutually incompatible and cannot be levied together on the same property.

A land value map [descriptive pages were enclosed] is available showing the unit value of land for all streets, avenues, alleys and roads. The unit value refers to 1 metre frontage by 36 metres depth, and is revised from 4 to 4 years (one-fourth of the streets and roads per year). Landed properties are individually valued by using the unit values according to the formula of Jerret. Corner influence is computed by the Bernard rule (somewhat modified.) Appeals have been less than 1 per cent. and about one-half of them were rejected as baseless.

THE REFORM

On June 23rd, 1948, the City Mayor, General Angelo Mendes de Morais, addressed a message (n. 14) to the City Council proposing a complete reform of the real estate taxation, abolishing the rates on the rental value of buildings and shifting them to the value of land apart from improvements. The proposed rates are 4 per cent. for the landed properties located in urban districts (commercial and residential), 3.5 per cent. in the suburban districts and 2.5 per cent. in the rural districts. The plan of the reform is original, as far as I know. For this reason I called it the Rio de Janeiro Plan, to differentiate it from the well-known Pittsburgh Plan. It will be

applied in three distinct steps (Article 29) as follows:—

First step.—All newly-built-upon landed properties where the buildings shall become completed and ready for use after December 31st, 1949, will be included in the new taxation on the value of the land alone.

Second step.—All landed properties which shall be transferred by sale to new owners after December 31st, 1951, will be included in the new taxation.

Third step.—After December 31st, 1954, all of the remaining landed properties will come under operation of the new taxation, thus completing the plan. However, since this is the *dangerous* step of the reform, the plan stipulates that, if the amount of the new tax on the land value be higher than the amount paid in 1954 on the rental value of buildings, the annual increase of the new tax cannot be higher than 10 per cent. of the amount due in 1954. For instance, if an old building pays 100 in 1954 (on the rental value) and should pay 200 in 1955 (on the land value), the amount really due will be 110 in 1955, 120 in 1956, 130 in 1957, and so on, until the amount due equals the value of the new tax on the land value.

Another point to be remarked in the reform is that, although the land value is the value to be imposed on, the proposed law stipulates that the *taxed value* shall not be lower than one-third of the capital value of any landed property (land and improvements). This, of course, conflicts with the true land value policy, since in some cases a small part of the improvements may be hit by the tax on land. But this deviation from the principle was considered necessary until people get used to the new system and forget the idea of any relation between the tax and annual rental value.

This is the Rio de Janeiro Plan, which is now being discussed in the City Council, where it is being strongly supported by Councilman Dr. João Machado and his friends.

Any comments on this plan will be highly appreciated.

It is difficult to comment upon the provisions in the Bill, save to say that they appear to be the best approach that can be attained in the circumstances. A period will elapse before the local taxation in Rio de Janeiro will rest fully, and at an equal rate, upon the land values throughout the municipal area. The plan of having, meanwhile, a differing percentage rate in the various zones in the area may be a necessary accommodation in view of the variation which has applied to the existing taxation. The gratifying feature of the plan is its observance of the fundamental *principle* and the goal which is aimed at whereby all taxation of buildings and improvements will eventually be remitted and the revenue will be derived purely from the land value attaching to each property. It is only unfortunate that there will be this period of compromise as to which care will be required that it be not prolonged.

As it happens, Rio de Janeiro is well prepared for the institution of the reform because there exists already the periodically revisable separate valuation of the land value of all properties, one of the informing features of the considerable documentation which Mr. Werneck has sent being the extracts from the Valuation Roll and the "Land Value Map" of the City. Mr. Werneck has sent also a pamphlet of 62 pages specially written by himself, entitled "For the Reform of the Property and Territorial

Taxes," which has been circulated to the municipal authorities. In this he goes deeply into the subject, explaining the faults and injuries of the prevailing system, the benefits of land value taxation and describing the operation of land value rating in other countries. The August issue of the official *Bulletin* of the Technical Council of Economics and Finance contains a long article by J. V. O. Martina on the proposed legislation and its economic and ethical basis, quoting the writings of Henry George and other authorities. The *Bulletin* further contains the full text of the Bill.

In a covering letter Mr. Werneck expresses his indebtedness to the United Committee for the considerable material which was sent to him bearing upon the operation of the land value policy in other countries; and we are grateful to him for the copies we have received of his own translation, in Portuguese, of Henry George's *Progress and Poverty*, which was published in 1922 and is now in its 3rd edition. He has told us that the first edition was

greatly assisted by our good friend, Octaviano Alves de Lima, of Sao Paulo, "the father" of the Brazilian Georgeists.

"Now about the Reform," Mr. Werneck writes, "the fight is now raging in the Press and radio with strong pleas from both sides to the City Council. The land-owners are spending considerable money in the campaign and to mislead the people they say that the reform is backed by the Communists (who, in fact, really oppose it!). Will it pass through? We do not know. The Bill is now under discussion in the Finance Committee, after which it will be placed before the House for two Readings and voting. Among the various parties there is a division of opinion and twenty members of the Council have so far not taken any definite stand."

We await further reports with profound interest, realising that the question has been raised with such vigour and understanding that sooner or later the Reform must be enacted.

LOCAL TAXATION IN KENYA — Mombasa Emulates Nairobi

WE are indebted to Mrs. M. C. Layzell for copies of the *Mombasa Times* of August 5th and September 9th reporting the consideration given to the system of local taxation in that municipality. In the island area, that is to say in the town itself, the "site rate," whereby all rates are to be levied on land values only, takes effect in 1949. Up till now Mombasa has levied the so-called "differential rate" which distinguished between land and buildings so that the rate on buildings was lower than that on land values. Now buildings will be completely relieved. The question of extending the levy of rates over the mainland area, which covers approximately 15½ square miles, or nearly three times the area of Mombasa island was deferred pending further consideration by the Finance Committee. Preliminary work is required, including preparation of the records of land ownership and land transactions in the mainland area.

Mombasa now comes into line with Nairobi where, since 1921, the rates have been levied on land values only. Its action is in accordance with the recommendations of the (Plewman) Taxation Enquiry Committee which reported in 1947. These recommendations were printed in *LAND & LIBERTY*, February, 1948, and we recur to them later.

The resolution to adopt the "site rate" (in the island area) was carried at the meeting of the Mombasa Municipal Board on August 3rd, after an amendment to refer the matter back to the Finance Committee had been heavily defeated. The Chairman of the Committee, Mr. Collins, said there was no justification for rating improvements. After dealing with the benefits of the "site rate" system he said that it took between eight and nine months to prepare a valuation roll both for land with improvements and for land value alone, and he indicated that if a "site rate" were introduced, it would not only reduce that period by half but the work necessary would be reduced by more than half and, in his opinion, most of the work could be done in the office. It would assist the Board both in the handling of property and in the collection of rates. He estimated that a rate not exceeding 2 per cent. on unimproved site values would cover their requirements for the time being. Mr. G. I. Sutton, deputy chairman of the Finance Committee, said the Board had asked the views of the Mombasa ratepayers and there had been no response except from the Chamber of Commerce, who were of opinion that the "site rate"

would decidedly encourage development and, not only that, it would encourage the best type of development. Mr. Gordon White said the single tax system would act as an incentive to private enterprise and the landowner to improve sites which would lead to an easing of the housing shortage.

We give the following extract from paragraph 62 of the Report of the Kenya Government Taxation Enquiry Committee—the Plewman Committee above referred to:

"Under the site-rate system the value of land only is taxed, while under the differential-rate system, the value of the land and the value of the improvements are taxed, but at different rates. It is usually debatable as to which is the more productive system of rating, but under the site-rate system no penalty is entailed in the erection of new buildings or the improvement of existing buildings. A valuable incentive to property owners to improve their holdings is, on the other hand, withheld under the differential-rate system. Moreover, on a site-rate basis, the owner of undeveloped land may in all respects be said to bear his due proportion of the costs of communal municipal services. It conforms no less well to the revenue norms of elasticity and certainty; it is equally economical to administer and it might, in present circumstances contribute in some measure to the solution of the post-war housing problem. From the fiscal point of view and bearing in mind the present need to encourage development, the Committee favours the site-value system in the taxation pattern of the Colony, and the principle of levying a comparatively high rate on land, thus ensuring that it will not be left idle or insufficiently developed for too long, rather than the taxation of improvements."

6d. KARL MARX'S THEORIES OF SURPLUS VALUE AND LAND RENT. By F. C. R. Douglas, M.A.

2s. 6d. LAND VALUE RATING. Theory and practice; a handbook for all interested in municipal finance and the rating question. By F. C. R. Douglas, M.A.

3s. 6d. SOCIAL PROBLEMS. May well be read first among Henry George's writings as a popular introduction to them. Twenty-two chapters, including: The Wrong in Existing Social Conditions; Unemployed Labour and Idle Capital; Effects of Machinery; Over-production, etc. Applies to current economic problems as when written. By Henry George.

6d. PUBLIC CHARGES UPON LAND VALUES. A Study of Rating Systems in Australia.