

PRACTICAL SUGGESTIONS FOR LAND-VALUE TAXATION.

By James Dundas White, LL.D.

GENERAL CONSIDERATIONS

The Taxation of Land-Values is based on the principles that the land, which Nature has provided, should be treated as common property, and that the best way to enforce the common right to the land is to require those who hold it to pay to the community a tax—or rather a land-rent—for it, proportioned to the market value of the land that they hold, irrespective of the improvements on it, and payable whether they are using the land or not. These principles are simple, but the practical application of them gives rise to certain questions, some of which have been considered in articles contributed by the writer in the two preceding numbers of LAND & LIBERTY, and some others may be considered here.

DEFINITIONS

The first step is to define the expression "Land-value" and several supplementary expressions, in much the same way as they should be defined in an Act of Parliament. The following definitions, which are here suggested, are based on those in Section 25 of the Finance (1909-10) Act, 1910, subject to considerable amendments suggested by Section 1 of the Revenue Bill, 1914, by some of the definitions that have been adopted in Australia and New Zealand, and by some other considerations.

Definitions of "Land-value," etc.

(1) The expression LAND-VALUE of land means the amount which the fee-simple of the land, irrespective of the improvements thereon, might be expected to realize if sold at the time in the open market by a willing seller, free from incumbrances and from any burden, charge, or restriction (other than rates and taxes but subject to any public right of way, or public right of user, or public easement, or any right of common.

(2) The expression IMPROVEMENTS means—

(a) any buildings and any other structures (including fixed or attached machinery) on, in, or under the surface;

(b) any growing timber, fruit trees, fruit bushes, growing crops, fruit on the land, and other things growing thereon (except grass or any natural herbage or any other natural growth on the land);

(c) any ploughings, seeds, sowings, and tillages, or other things done on the land for the purpose of cropping or feeding the land in the ordinary course of husbandry; and

(d) any works of fencing, dry-diking, draining, reclaiming, embanking, levelling, road-making, and the like in so far as they are attributable to the private expenditure of labour or capital within forty years* preceding the date of valuation.

(3) The expression VALUE OF IMPROVEMENTS means the difference (if any) between the land-value of the land and the amount which the fee-simple of the land, together with the improvements thereon, might be expected to realize, if sold under the conditions specified in (1);

Provided that (except in the case of things growing on the land) the value of improvements should in no

*Forty years is the maximum period over which may be spread the repayment of advances made for the improvement of land under the Improvement of Land Acts, 1864 and 1899. Both the principle and the duration of the time-limit have been considered in the chapter on "Improvements that Merge in the Land," in the present writer's pamphlet, LAND-VALUE PROBLEMS.

case be deemed to be more than the cost of making them at the time of valuation, less a reasonable allowance for depreciation (if any) due to wear and tear and obsolescence since the improvements were made.

(4) The fee-simple of land should be deemed to include all MINERAL RIGHTS which pass with the fee-simple, except in so far as the mineral rights have been severed from the fee-simple, and are the subject of a separate valuation;

Provided that the valuation of the fee-simple and of the mineral rights, taken together, should in no case be less than the amount at which they would be valued if there were no severance.

CAPITAL OR ANNUAL LAND-VALUE?

Land-value is here defined in terms of capital or selling value, which is of a more simple character than annual or letting value, as the amount of the latter is affected by the length and the other conditions of the lease. Capital value has been adopted as the basis for the land-value valuations in Australia, in New Zealand, and in those parts of South Africa where valuations are made on this basis. It has also been adopted in this country for the valuations of full site values and the other values defined in s. 25 of the Finance (1909-10) Act, 1910. It has the further advantage of distinguishing the proposed valuations more clearly from our present valuations of what is called the "annual value" of landed property for Income Tax under Schedules A and B and for Local Rating, which, speaking generally, are based on the rent obtainable for the property as a whole, if let for a year in its existing condition, instead of on the selling-value of the land alone.

The selling-value basis has been criticized on the ground that, as the increase of the tax would tend to reduce the valuations (which represent the value remaining in private hands) a stage might be reached at which the valuations would be so reduced as not to afford a satisfactory foundation for the increased tax. This contingency, though remote, is not impossible, particularly if both the taxation and the rating of landed property were transferred to land-value, and in view of the fact that the land-value would be considerably less than the value of the land and the improvements together.

This difficulty could not be overcome by the familiar proposal to add to the capital land-value the capitalized value of the rates and taxes on it, because these rates and taxes would themselves be founded on the reduced valuations, and also because any such plan would have at least the appearance of taxing the landholder on the rates and taxes that he pays as well as on the value that he enjoys. To value the land as if there were no rates and taxes is merely another form of the same proposal and, in practice, would have to be worked in the same way. Nor can we solve the problem by taking as the annual value some percentage of the selling value, because the conditions that would reduce the selling value would reduce any percentage of it in the same proportion.

The best solution would be to define annual land-value in such a way that the rates and taxes on the land-value would not react on the valuations, and that differences in the length and the other conditions of tenancies would be eliminated from the valuations by assuming the tenure to be continuous and to be free from any restrictions on the use or transfer of the land. The change from capital value to annual value might be made by substituting the following definition for the definition in (1) above, with corresponding changes in the other definitions, where required:—

"The ANNUAL LAND-VALUE of land means the best annual rent or feu-duty that could reasonably be

obtained for the land, irrespective of the improvements thereon, if it were leased or feued in the open market by the owner of the fee-simple at the time of valuation either for a term of 999 years or in perpetuity, assuming that there were no contractual restrictions on the use or transfer of it, and that all rates and taxes on the land-value were payable by the receiver of the rent or feu-duty."

These conditions of tenure would gradually become usual if the land-value tax were made a first charge on the property, and if it were allocated and collected as already suggested in *LAND & LIBERTY*. Thus the actual working of the tax along these lines would facilitate the transition from capital to annual land-value, if and when this transition appears desirable. In the meantime, however, the taxation of land-values should be begun on the simple basis of capital land-value, which has stood the test of experience elsewhere.

THE MAKING OF THE VALUATIONS

The valuations ought to be made on behalf of the national authorities. This course would be necessary for a national tax, and it is also desirable for local rating, because it would secure the valuations being made by competent valuers, free from local influences, and would also secure a proper proportioning between the valuations of different localities, which would be useful for various purposes and would facilitate the just apportionment of the Parliamentary Grants in Aid of Local Taxation. The valuations should be revised either annually or quinquennially. They should be made under the direction of the Government Land Valuation Department, which has been making the valuations under Part I. of the Finance (1909-10) Act, 1910, and is in possession of the information obtained under the provisions of that Act.

GENERAL PLAN OF THE LAND-VALUE TAX

The Land-value Tax should be a new and self-contained tax, distinct from all other taxes on landed property. There should, however, be a provision that where a person had paid the whole or any portion of the Land-value Tax on a property for the year, he should be entitled to deduct the amount so paid from any payment that he might otherwise have to make in respect of that property for that year under Schedule A of the Income Tax—the Schedule that applies the Income Tax (of which the standard rate is now 6s. in the £) to what may be described as the annual rent obtained or obtainable for the property if let for a year in its present condition.

The Land-value Tax, being payable on the basis of the selling value of the land, whether the land were being used or not, would prevent the withholding of land from use, and would impel those who are holding land without using it either to use it themselves or to pass it on to others, thus breaking land monopoly and making more land available for use, at rents and prices based on the natural amount of land instead of on an artificial scarcity. The proposed co-ordination with the Income Tax under Schedule A would prevent land-value being taxed under that Schedule as well as under the Land-value Tax, and would also to some extent relieve improvements from the taxation imposed on them by that Schedule; and it would effect these results without disturbing the fabric of the Income Tax.

The Land-value Tax should be introduced as an annual tax of not less than 6d. in the £ on the capital land-value of each property, which would be equivalent to an annual tax of 10s. in the £ on 5 per cent. of the capital land-value. Questions of how it might afterwards be developed, whether it might be substituted completely for Income Tax under Schedules A and B

and also for the House Tax (strictly so called), and how to co-ordinate the national taxation and the local rating of land-values, may be considered at a later stage. The first step should be to inaugurate a national land-value tax on simple lines, and to get the machinery working.

DEPRECIATION—THE NEW TAX.

A Compulsory Funding Loan.

By COLONEL WEDGWOOD, D.S.O., M.P.,

in the WESTMINSTER GAZETTE, October 28th

"We are heading straight for bankruptcy."—Any Daily Paper, any time.

Nations do not go bankrupt—at least, so far as their own people are concerned. If they owe money abroad, then, indeed, they may suspend payment, but at home, never. It is easy to say that we "are going bankrupt"; it would be more useful to understand what is really happening. If a private individual spends more than his income, a moment comes when the bailiffs are put in; but if a private individual could print money and make people take it, he would never see the bailiff. We owe comparatively little money for which our foreign creditors do not hold security in their own coinage; we shall never see the bailiffs, or even the American fleet coming over to collect their interest.

In reality the English State is just following in the footsteps of Henry VIII., and depreciating the coinage. One can make in these days a very interesting study of comparative bankruptcy, of comparative depreciation. Wandering through all the countries of the world, from Bolshevik Russia or Hungary at the one end of the scale to Japan at the other, we see all grades of the process. One watches the exchange.

A little time ago a British General came back hot-foot from Denikin in the new Russia. He told us that Denikin could collect no taxes, and had not the full use of a printing press. That was the last straw. He had come back to buy a printing press—and paper—if he could raise the money. One understands these things so much better in the East. The old-fashioned taxes, direct and indirect, are out of date. To depreciate the coinage and raise prices all round is so simple. It is the easiest way of plucking the goose, and it gets wages down beautifully. It does not hurt the capitalist, unless, indeed, he has been fool enough to put his money into trustee stocks or Preference shares; wages go down, and the nominal prices of his shares rise and rise. You cannot talk about depreciation of real capital nowadays; we shall have to show appreciation in our balance sheets. It does not hurt the landlord; the real value of his land depends on the population, and the lower their wages the larger his surplus. Only countries that are short-sighted enough to starve away or kill off their population are likely to see land go out of demand for house and food. No, the new form of taxation gets right down on to the wage-earners. During the war the wage-earners had a monopoly; they could get rises to meet the new tax. Only the unfortunate widow and orphan with a trustee income got squeezed out. But now it will be much more difficult to keep up nominal wages, and real wages will go on falling. Unless the Labour Party understands this there will be trouble.

If our State income is £600,000,000 and our State expenditure is £1,200,000,000, the balance is made up by printing paper money. Of course, it is largely