

CHAPTER XIII

A NEW DOOMSDAY BOOK

"The foregoing shows the necessity of introducing a new system of taxation according to such a standard that all the lands of the proprietors, without distinction, would be equitably assessed. . . . If, in this way, the almost infallible standard for meeting the necessities of the State by means of a land tax is found, all other imposts, especially the duties on commodities and the salt tax, must be abolished; . . . and free trade in raw materials, and free manufacture of all necessities of life, in towns as well as in the country, without privilege . . . would have to be conceded. Such an institution, which would set all industry free, could not do otherwise than give an extraordinary elasticity to the nation."—From a draft for a Tax Regulation Law, proposed by the Emperor Joseph II, quoted by DR ALBERT JAEGER in *Oesterreichische Geschichte für das Volk*, Vol. XIV, "Kaiser Joseph II und Leopold II; Reform und Gegenreform (1780-1792)."

"Ce n'est que la premier pas qui coûte."

THE indispensably necessary first step towards making the Taxation of Land Values part of our Statute Law is the Valuation of all the Land in Great Britain apart from any improvements existing on or in it: to ascertain what is called in the British Dominions the "unimproved value of the land." To ensure the passage of such a Valuation into law, it must be linked with some provisions for imposing taxation on the land so valued, in order to secure the Speaker's certificate that the Bill is a "Money Bill" and make it safe, under the Parliament Act, against mutilation or rejection by the House of Lords. The natural result of this is that the proposal of a Valuation is embodied in a Budget and implemented by a Finance Bill.

In his *Finance Act* (1909-10) Mr Lloyd George provided for a Valuation of all land and imposed certain "Duties on Land Values." The Act was repealed by the Coalition Government after the Great War, and certain moneys, which had been paid under its taxing provisions, were returned to the payers.

Mr Philip Snowden passed a measure for Valuation and

Taxation in his first *Finance Act* of 1931. A few months later, a new Government "suspended" the Valuation, on the ground of economy, and dismissed the temporary staff of valuers. In the spring of 1934, Mr Ramsay MacDonald's "National" Government, without any pretence of a mandate from the electors, repealed, in their *Finance Act*, 1934, the land value taxation sections of the *Finance Act*, passed by Mr Ramsay MacDonald's Labour Government, in the spring of 1931.

Land Valuation. The preliminary objection that land cannot be valued apart from its improvements has lost all its force, if it ever had any. The practice, which has prevailed in this country for centuries, of taxing and rating real property on the composite value of land and improvements has inspired the fear of some, and the hope of others, that the difficulty of separating the two values would prove insuperable. Yet one remembers that many years ago a highly reputable firm of land agents staked their reputation in an advertisement on the statement that the value of the land upon which stood Queen Anne's Mansions, on the edge of St. James's Park, was so-and-so. This was, at the time, probably the most highly developed site in London. Separate valuations of land are being made every day by land agents in the ordinary course of their business, and are imperative under the latest schemes for slum clearance. It is in fact easier to value land than to value the composite "property" for rating purposes. If land can be separately valued for taxation purposes in New South Wales, in Denmark, in Greater New York, and elsewhere, the same thing can surely be done in England and Scotland and London, or in any other civilized community.

The "great cost" of Valuation has been the constant objection of the opponents of the taxation for which it was to provide the basis. In any case, the *first* Valuation of all the land in Great Britain must necessarily cost a good deal of money, the expenditure of which is strongly objected to by the sort of people who cheerfully face the very heavy cost of levying "protective" and other indirect taxes, on a great variety of goods,¹ but who dislike the idea of a tax

¹ Estimated cost of Customs and Excise (1934-35), £5,072,000.

which would set the people free from land monopoly. Later re-valuations will prove far less costly. The annual re-valuation of land *and improvements* (separately) in Greater New York is carried through, smoothly and effectively, once every year, at a very small cost compared with the values registered.¹ There is no need to incur the expense of a valuation of improvements for the purpose of a land value tax.

The Financial Memorandum to the *Finance Bill*, 1931, stated that the cost of the first Valuation was estimated to be not less than £1,000,000, and that it might approach £1,500,000. This cost was evidently due to the necessity of setting up the required organization and of collecting essential data. It would, in fact, be largely a capital expenditure the benefits of which would be spread over many years. The cost of subsequent Valuations was estimated to be about £165,000 on each occasion.

It stands to the credit of Mr Snowden that he almost completely avoided the kind of complications in which Mr Lloyd George indulged in 1909-10. His introduction of a separate "cultivation value" for agricultural land is, therefore, all the more to be regretted.

Under Sect. 28 and the Second Schedule of the 1931 *Finance Act* (which have not been repealed) the Land Valuation Department is continuing to collect information about transactions in land, which, although wanted by the Chancellor of the Exchequer for other purposes, will greatly facilitate the making of a Valuation when his successor re-enacts the taxation of land values.

It is sometimes still suggested that the time necessary for the completion of the Valuation might be greatly shortened by calling upon the landlords to "make their own valuation."

It is very doubtful whether an "Owners' Valuation" would save much, if anything at all, in the way of time or expense; the experience of Australia is far from encourag-

¹ The average cost of assessment per parcel of real estate was, in 1913, \$1.00, and the cost of assessment per million dollars of taxable real estate was \$72.00. The comparable figures for 1933 were \$1.32 and \$58. The cost would, of course, be considerably less if the valuation were confined to the value of land alone.

ing.¹ A very large number of landlords would have an honest difficulty in the case, for instance, of covered land, in disentangling land value from improvement value. There are certain facts as to ownership, payments, etc., which anyone who claims to hold any estate in land can give, and may reasonably be asked to give, as to his holding. Upon these, the official valuer, with the other information at his disposal, can arrive at a just assessment of the land value.²

Provision was made in the 1931 Act for the deposit at the offices of each County and Borough Council of the completed Valuation Register for its area (Sect. 12 (2)); the Register to be open to any "owner" for inspection.³ It is to be hoped that, in any future legislation, provision will be made for the publication of Land Value Maps, such as have proved so useful in Denmark⁴ and New York.

The first Valuation, based on a definition of land value free from unnecessary complications, with some shortening of the periods for deposit and appeal, could be sufficiently advanced by the first day of January next after the passing of the Budget to enable the tax to be collected within the same financial year. It can only be made on the basis of present conditions in the land market, and will unavoidably include a good deal of speculative value. As the effect of the tax will be to redistribute land values to a considerable extent, and to "squeeze the water" out of values that have been inflated by speculation, a re-valuation at regular intervals⁵ will be necessary.

¹ See *Land & Liberty*, April, 1924, p. 65.

² Under Mr Snowden's Act the "owner" might give his own valuation, and the Commissioners were bound to consider it. [Sect. 11 (5).]

³ This is not quite good enough. The *provisional* valuation should be deposited, and should be open to inspection by any member of the public.

⁴ A section of a Danish land value map was reproduced in *Land & Liberty*, April, 1928. It has been reprinted, with an explanation, as a leaflet, by the United Committee for the Taxation of Land Values.

⁵ In Denmark every fifth year; in New South Wales at least once in every three years; in New York annually. The 1931 Act proposed Valuations in 1932, 1936, and thereafter every five years, as with the present Valuation for Rating Purposes. A shorter period, say every third year, would be desirable.

Exemption of Improvements. Mr W. E. Gladstone, in a speech which he made in London as long ago as July 29th, 1887, referred to the London ground landlords as the owners of "the permanent proprietary interests" in that City. Every leaseholder finds in his lease a covenant which compels him to insure the building or buildings comprised in the hereditament for the benefit of the freeholder to whom they will revert when the lease falls in. No obligation is ever put upon him to insure the land on which the building stands. Buildings may be burnt down, shaken down by earthquake, blown away by a tornado, carried away by a flood, destroyed by a bombardment, fall to pieces through decay; but the sites remain. Buildings, and all other improvements, are made on or in the land by human labour; the land was made by no man. Land increases in value through no effort of the "owner"; the value of improvements can only be maintained by constant labour.

One object of the taxation of land values is to rescue these products of man's labour from the destructive forms of taxation which penalize the making and maintaining of them. It is therefore desirable that, in taxing land values, we should see that all improvement values are excluded from calculation as completely as possible.

Since the object of the Reform is to relieve all improvements from taxation, no good purpose would be served by making a separate valuation of them. All that is necessary is to ignore them; to value each land unit as if the improvements on it were not there. The question of a separate official valuation of improvements does not arise.

Capital or Market Value of Land. Taxes and rates on real property (land and buildings) have long been levied on the basis of their annual rental value *rebus sic stantibus* ("as things are")—in their present condition and according to their present use. In the case of a plot of vacant, unused land (call it A), however great the value which the people have given to it, there is no income tax, because there is no income accruing from it, and no charge of the rates, because there is no occupier and no "beneficial occupation." In the case of a plot B, covered by a dilapidated, *unoccupied*

house, no income tax or local rate is levied, either upon the land value or the building value, for similar reasons. On a third plot (C) an occupied house, provided with every modern convenience, is rated on the basis of the annual rent that it might be expected to command, in its present condition and surroundings, less a certain statutory deduction, supposed to represent the average annual cost of keeping it in such a state of repair as to command that rent; and the receiver of the rent has to pay income tax on its amount. Suppose these three plots to be adjacent to each other, of equal area, with equal frontages to the same street. The plots, considered apart from the improvements, if any, upon them, are clearly of equal value, though the house on B is clearly of a much less value than the house on C. Yet, by the present methods of assessment, A and B (with its house) yield no revenue, and C (with its house) is assessed to rates and taxes, very highly if it happens to be a very good house.

Assessment for taxation and rating on the capital value of land would sweep away these absurd inequalities, for the equal land values would be equally taxed and rated. It would do away with the penalizing taxation on the good house on C, encourage the building of a better house on B and the provision of a new house on A, leaving the owners of all three houses free to make whatever improvements they please, without any fear of having their assessments to Schedule A, or to the local rates, increased.

Taxation on capital value is the usual arrangement in the countries that have adopted land values as a basis of assessment; and in this country Death Duties on real estate are already charged upon capital value.¹

In essence, the problem is a quite simple one. Here is a building, and the "property" is to be assessed for a land value tax. If the house were burnt down, or pulled down, leaving a bare site, with all its present surroundings unchanged, and the site came into the market, what would it fetch, as between a willing seller and a willing buyer? Any professional land valuer could answer the question. It is far easier to answer than many of the questions that

¹ There are strong arguments in favour of adopting the annual value of land as the basis of assessment at a later stage.

continually arise in connection with the present system of valuing for rating purposes.¹

The 1931 Valuation was to be made "without taking into account the value of any minerals, as such, or the value of any mineral wayleaves."² The *Law of Property Act, 1922* (Sect. 1) includes among the legal estates in land, an "estate or term in mines and minerals, apart from the surface, or in the surface, apart from the mines or minerals." If the landlord of mineral lands is working the minerals, or has leased to someone else the right to work them, the capital value of the land should include the value of the minerals. "Ungotten minerals" should be treated as a separate parcel of land, and valued and taxed accordingly.³

Some Exemptions from Taxation. While it is very important that the greatest care should be taken to exclude from the Valuation of Land all value due to buildings and other improvements, it is also very important that no land value should be exempted from valuation, or, except for good and sufficient reason, from taxation.

Under the *Finance Act, 1931*, land which is owned by the Government or by the Crown and not let on lease was exempt from the tax (Sect. 24). The same section exempted local authorities in respect of any land not let on a long lease. These authorities do not always use or let the land. There is no good reason for exempting them from a national land value tax.⁴ If the tax fell upon all vacant land, it would tend to prevent such a scandalous delay in bringing very valuable land into use as took place, for instance, in the case of the Strand Improvement (Aldwych and Kingsway). The last portion of the London County Council's surplus land, between Aldwych and the Strand, after standing idle for a generation, was let on a building lease to Bush House (Extensions) Limited, on building lease for 94½ years from June 24th, 1934, at a reduced ground rent (after the first

¹ See VERINDER, *Land, Industry and Taxation*. Chapter III.

² See Chapter VIII above, p. 84 ff.

³ So also with regard to shooting and fishing rights.

⁴ The Crown makes an *ex-gratia* payment in lieu of rates on its scattered properties; and local authorities are subject to Income Tax.

year at a peppercorn) of £10,000 a year. London, of all places in the Kingdom, owes much of its immense land value to what Adam Smith called "the good Government of the Sovereign," and should recognize its debt to the Nation at large. Even the site of the County Hall owes much of its value to the nearness of the Houses of Parliament and the Government Offices at the other end of Westminster Bridge.

Parks, gardens and open spaces, "open to the public as of right," have, of course, no more market value than has the surface of the streets. Places of worship, churchyards and burial grounds might be exempted from the land value tax. This is in accordance with almost universal custom. But, although a good deal of land, some of it very valuable, would be thus allowed to go tax free, it is necessary that *all* the land, whether subject to tax or not, should be valued, for it may change its ownership or its use. Many City churches have been pulled down, and blocks of highly-rented offices have taken their place. Some chapels have become cinemas. Disused burial grounds have frequently been built over.

A National Tax. For the first levy of a National tax on the land value, when ascertained, the amount of the tax is not of very great importance. Mr Snowden's penny tax on every £ of land value was avowedly put forward only as a beginning, to be followed by a larger tax and by rating on unimproved land value. A great deal of cheap ridicule was directed against the penny tax, even by people who knew quite well that 1d. in the £ on capital value is equivalent to at least 1s. 8d. in the £ on annual value. The immediate purpose of the tax was to ensure the passing of the Valuation through the House of Lords, by making it part of a Money Bill, and so placing it under the protection of the Parliament Act.

A future Chancellor will no doubt consider whether the delay caused by the "National" Government should not be compensated for by an increase in the poundage of the tax when it is revived.

Rating on Land Values. The natural sequel to the setting up of the Valuation would be an Act empowering the Municipalities, who will then have in their custody the

Land Valuation Lists for their respective areas, to levy their rates, wholly, or in part, on land values. In New South Wales, since 1906, the whole of the rates in town and country alike, except the rates levied in Sydney and Newcastle by the local Water and Sewerage Boards, have been placed on unimproved land value, and a demand is being made for the removal of these comparatively small exceptions.

It is greatly to be desired that, when a similar step is taken in this country, it shall be in the form of a general change in the law of rating. The slow and cumbrous method of Local Option in Land Value Rating, adopted in some of our Dominions,¹ is not an example to be followed here. If it were, great progressive communities, suffering under high rents and high rates, would undoubtedly adopt the reform promptly. Glasgow, Liverpool, Manchester, Sheffield and many other towns have declared through their Municipal Councils in favour of the change. Even London, in the early days of the London County Council,² was in favour of it. The newly-elected Council, on May 15th, 1934, registered its protest against the repeal of the Snowden Act, which would have gone far towards providing a basis for land value rating.

But the rural districts and many of the smaller towns, still under the heel of landlordism, would probably be a long time in coming into line, and the great towns, which can only grow by extending into the surrounding rural areas, would still find their growth hindered by the "iron ring of land monopoly"—the unrated vacant land—outside their borders, and the working farmers and labourers would still be deprived of the free access to land on reasonable terms, which is denied to them under the present system.

¹ The extent to which Rating on Land Values has been adopted in various countries under either compulsory or optional provisions is described in the Appendix *Land Value Taxation in Practice* for which the author is indebted to Mr. A. W. Madsen.

² One of its earliest Acts, after its establishment under the Act of 1888, was to appoint a Special Committee to consider the best method of ascertaining the value of land in the Metropolis, irrespective of buildings and improvements. It reported on June 4th, 1889. Henry George gave evidence before this Committee as to the methods of valuation in the United States.

With a universal tax on land values, and the universal rating on land values, land for agricultural, building and industrial use, and for every public purpose, would be available as and when and where it was needed, and the progressive de-rating of agricultural, industrial, commercial and domestic buildings and all other improvements would clear the way for the solution of our most pressing social problems.

Apportionment of Land Value Taxation. Under the 1931 Act, the land value tax was to be passed back to the receiver of the land value, "notwithstanding any agreement made before the passing of the Act" [Sect. 20 (3)].¹ It is frequently the case that a number of persons—freeholder, lessee, one or even moresub-lessees and sitting tenant—are in enjoyment of the land value in various proportions. In some cases, a mortgagee in possession has taken the place of one of them. In all such cases the method of deduction provided in the Act ensures that each of the several receivers of land value should pay his proportion of the tax.

The same question will certainly arise in connection with land value rating. The intention is that those who enjoy the land value shall pay the rate, although for convenience' sake it is collected in the first instance from someone else. This can be ensured by the method of deduction from payment of rent.

This method was recommended in a famous pamphlet² quoting the precedent of the Landlord's Property Tax. The question was fully discussed in the Report of the Select Committee on the *Land Values Taxation (Scotland) Bill*, 1906, of which the late Alexander Ure, then Solicitor-General for Scotland, was chairman. The committee, after stating the arguments on both sides, especially in connection with Feu Duties, decided in favour of deduction. In the Transvaal, where leaseholds are common, the Ordinance No. 1 of 1916 made provision for all interests in land value to contribute in due proportion to the rates (by a process of deduction). This provision was contested

¹ A stipulation that the lessee shall pay the rates is "common form" in leases.

² J. FLETCHER MOULTON, Q.C. (afterwards LORD MOULTON) : *The Taxation of Ground Values* (1889).

by the landlords in the Transvaal Court, on the ground of contracts which obliged the lessees to pay the rates, and it was decided that interference with private contracts was *ultra vires* of the municipality. The South African Supreme Court reversed the judgment of the local court (1917) and, on appeal to the Privy Council, the judgment of the Supreme Court was upheld (1920). The judgments were reprinted in *Land and Liberty*, June, 1930.

The objection to this method of deduction can only be sustained if it is admitted that the landlords have a vested right¹ to all the land value that they can collect, because they have inherited or acquired land under the present system and it is therefore unjust to tax land values. If such a principle were admitted, it would put an end to any hope of abolishing legalized vested "rights" that have become recognized as vested wrongs. In good morals, no one can have a vested right in an unjust system.

No such objection came from the landlord class when the re-introduction of protective duties on a multitude of goods, which had been tax-free for a generation or two, interfered with numberless business contracts, made in good faith under a different fiscal system.

Parliament did not shrink from making rent-receivers liable to income tax under Schedule A, in spite of contracts in leases. Mr W. E. Gladstone, in his Budget of 1853, proposed to extend the Legacy Duty, hitherto confined to personal property, to real property, passing at death—a first small limitation of landlords' fiscal privileges—and brought himself into conflict for the first time with the House of Lords. His proposal was denounced as

a proposition impracticable, oppressive, unjust, cowardly and absurd. It was called *ex post facto* legislation. It was one of the most obnoxious, detestable and odious measures ever proposed. The author was a vulture soaring over Society, waiting for the rich harvest that death would pour into his treasury.²

Nevertheless the proposal became law.

The Finance Act, 1931, gave the lessee power to deduct the tax from his rent, notwithstanding any agreement

¹ On "vested rights," See Prof. HARRY GUNNISON BROWN, *Comments on Some Current Criticisms of Land Value Taxation*, pp. 135-150.

² MORLEY, *Life of Gladstone*, iii., Book IV, ch. ii.

made before the passing of the Act.¹ No doubt this and the other precedents referred to will be followed in a Land Value Rating Act.

¹ Many leases have, of recent years, contained a provision that the lessee should pay, not only the rates, etc., but also any tax that may be imposed on land values. It is, of course, childish to think that impending legislation can be sterilized by such a device, especially in the case of a value which is so clearly the creation, not of the recipient but of the public on whose behalf Parliament is legislating.