CHAPTER V

THE INCIDENCE OF TAXATION

BY the incidence of taxation is meant the way in which the burden ultimately falls. A tax on tea or tobacco, for instance, though it may be paid to the revenue in the first place by the importer, is eventually recouped to him by the dealers through whose hands the commodity passes until it is finally paid by the consumer.

A tax on economic rent must fall upon the owner of the land, and cannot be added to the rent payable by the user of land. This proposition, which is universally accepted, is a simple deduction from the law of rent. Such a tax will not fall upon marginal land, because no economic rent is paid on such land. If, therefore, the owner of superior land endeavours to shift the burden on to the occupier, or if he is a producer to raise the price of the product, the competition of marginal land where no tax is payable will frustrate him.

In other words, economic rent is a pure differential payment or surplus and to take part of it in taxation does not affect the factors which determine that surplus or enable it to be increased.

"If land is taxed according to its pure rent, virtually all writers since Ricardo agree that the tax will fall wholly on the landowner, and that it cannot be shifted to any other class, whether tenant-farmer or consumer . . . The point is so universally accepted as to require no further discussion." (Prof. E. R. A. Seligman, *Incidence of Taxation.*)

The ultimate mechanism by which taxation of commodities is passed on to consumers is a restriction of supplies until prices are raised sufficiently to compensate for the tax. But land is not produced. The supply is already here. If the owner attempts to limit the supply by holding it out of use he must under the land-value system still continue to pay the tax assessed upon the economic rent it would yield. So he must pay the tax without obtaining any revenue to meet it, and such a suicidal policy could not be adopted by any appreciable number of owners nor persisted in by any.

Indeed, under existing conditions when much valuable land is held out of use tax-free, a tax on economic rent would bring this idle land into use, for it would no longer pay its owners to hold it idle. The available supply of land would increase, and the larger supply would create a tendency for economic rent to fall, not to rise. Hence a tax on economic rent cannot be shifted; it remains where it is imposed.

Another important effect of a tax on economic rent is that it diminishes the capital value of land. This is a consequence of the fact that the selling value or price of land is the discounted value of the returns which the owner expects from it in the future. So far as the State or the local authority takes part of the economic rent in taxation the landowner has a partner in the economic rent. His share is diminished and the amount for which his share can be sold is also diminished.

This result is sometimes referred to as the amortization of a land-value tax. So far as any existing taxation falls on economic rent it has already had the effect of diminishing the capital value of land, which is less on that account. The purchaser pays less than he would pay if no taxation fell upon economic rent, and therefore such taxation already imposed is no burden upon him. The principle is similar to that which applies when land is bought subject to a fixed charge such as tithe. The purchaser pays less for land burdened by tithe than he would pay for an identical plot free from tithe, and therefore the tithe is, other things being equal, no burden to him. The burden has been discounted in a lower purchase price.

Some other considerations arising out of this principle will be referred to when the question of the basis of a land-value rate comes to be considered.

Taxation imposed upon commodities, as we have noted, is shifted to consumers through higher prices, and this applies not only to movable things, but also to houses and other fixed labour products. The local (and national) taxation upon houses shortens the supply and makes the rent which must be paid for them higher. The ill effects which this has upon the housing situation do not need elaboration. The difficulty is to understand why, in a country where so much stress has been laid upon the shortage and dearness of dwellings, such a system has been allowed to continue for so long.

Local rates under the existing system are levied upon a valuation based upon the rent which a willing tenant may be expected to pay for the property in its existing condition on a tenancy from year to year. This definition automatically excludes consideration of the potentialities of the land for better use, for no one would make permanent improvements under a yearly tenancy. Thus the valuation is entirely dependent upon the use being made of the land at the time, although it may be capable of much higher development.

In so far as the rent upon which the valuation for rating is based includes some part of the land value, it may be that the local rates do at present fall to some extent upon owners of land, but it is clear that the major part of the burden falls upon the occupiers of houses, shops, and other rateable properties. And in the case of shops and industrial premises the tendency is for the burden to be shifted still further to the consumers of the articles vended or manufactured thereon.* Recognition of this fact served as an excuse for the de-rating legislation enacted in 1928-29, but this failed of its purpose for two reasons. First, the de-rating was applied to the land as much as to the structure. Second, under existing conditions of speculation and holding of land out of use the temporary benefit to the occupier tended to be absorbed in higher rents. The vivid promises of a revival of industry held out by the author of this scheme were entirely falsified. Other ratepayers, and the taxpayers who are only ratepayers under another name, have had to bear the burden of what has become in effect a concealed subsidy to landowners.

* Compare the statement by Mr. Blunden quoted on p. 37.