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Theory and Background of Land Reform in Taiwan

Land-use is important to any economy, and it is particularly important to large agricultural economies such as the Chinese. The rulers of China recognized this long ago and they have been concerned about the scarcity of land in relation to the population, and the proper use of it for centuries.

As an ancient saying goes, "A nation depends upon its people, and the people depend upon food to keep themselves alive." In an agricultural society, to solve the problem of food for the people is the basic task of those who wish to regulate family life, to order the national life, and to pacify the whole world. With the solution of this problem, all other problems can be easily solved. But if the problem is not solved, the spread of hunger and starvation can be expected to lead to disaster for the nation.¹

1 Land Reform in Taiwan, by Chen Cheng, Taipei, Republic of China, China Publishing Co., 1961, p. 3.

It is as basic and as simple as that. If the available land is not economically and properly used, disaster faces the nation and the whole world.

Many of the ancient rulers of China knew that if agriculture was to flourish land problems had to be solved, and so there have been successive efforts at land reform throughout Chinese history. The first one to advocate the limitation of individual holdings of farm land was Tung Chung-Shu, a statesman of the Han Dynasty in the time of Emperor Wu (140-88 B.C.). During the Northern Wei (386-543 A.D.) and Tang (618-906 A.D.) Dynasties, progressive measures of land equalization were carried out.² During the reigns of the Emperor Kuang Wu (25-57) A.D.) of the Eastern Han Dynasty and at the time of Prime Minister Wang An-shik (1018-1086 A.D.) of the Sung Dynasty, other reform measures were instituted, but none of these ancient

reforms were implemented thoroughly and then only for a short time.³ Always the land reverted to larger land owners, and the majority of the farmers were tenants paying oppressive rates for their land.

2 Theory and Background of Land Reform in Taiwan, by Tseng Hsiao, Paper to be delivered at International Seminar in Taiwan on Land Reform, Dec. 11-21, 1967, p. 1.

3 Cheng, op. cit., pp. 3-4.

Modern land reform in China stems from the work of Dr. Sun Yat-Sen (1866-1925), the father of the Chinese Republic. When he was pushing for a republican form of government in the last days of the Empire he formulated the policy of "equalization of land rights," but this policy had not been realized when the Communists took over the mainland in 1949. Dr. Sun propounded his policy from ideas he had abstracted from several sources. When he went to Europe and America for the first time in 1896, John Stewart Mills' theory that all unearned increment of land should go to the public was enjoying some favor among some political economists in Britain. Henry George's single tax plan was discussed in the United States. Adolf Damaschke was organizing a land reform league in Germany. Some Russians were looking into the question of land nationalization, and a land value tax was being introduced in Australia. From these origins, and his own experience in China, Dr. Sun proposed the "Three Principles of the People." The objective of these "Principles" is the realization of the "Principle of the People's Livelihood," and this is conditional upon the implementation to two basic ideas: "equalization of land rights" and the "regulation of capital." ⁴

4 Cheng, op. cit., pp. 10-11.

We are concerned with the "equalization of land rights," but will discuss it after the conclusion of this brief historical survey.

Among the planks of the Koomintang Party, which became the government party in the days of Chiang Kai Shek's presidency on the mainland, and which strove to create a unified China, a policy of rent reduction was one of the most important. It was impossible to implement nationally while war lords remained active, and after the Japanese attack in 1937. Nevertheless, a 25 percent rent reduction was introduced in the provinces of Kwangtung, Hunan, Hupeh, and Chekiang, without very good results. The Central Government promulgated the Land Law of 1930, providing that annual farm rentals should not exceed 37.5 percent of the total annual yield of the main crop, but wars and rumors of wars, as well as apathy prevented the law's fruitful application. The late Vice President Cheng admits in the preface of his book, *Land Reform in Taiwan*, that the failure to implement land reform cannot be blamed entirely on the military situation.

We are sincerely sorry for our failure to carry out Dr. Sun Yat Sen's land-to-the-tiller ideal while we were still on the mainland. Though that failure may be partly attributed

to internal disturbances and foreign invasion, it was due mainly to the selfishness of a small minority of people, to their short-sightedness and lack of courage.⁵

5 Cheng, op. cit., p. xiii.

The subject of this paper limits our consideration to the progress of land reform in the province of Taiwan (the island of Formosa), and we shall refer to the so-called land reform measures that took place on the mainland under the Communists only briefly and for comparative purposes.

In the province of Taiwan tenancy farming had existed for a long time, having been established by the end of the 17th century. Although some industrialization occurred during the fifty years of Japanese occupancy, there was no significant change in the tenancy system. In 1920-21, some 42.7 percent of all farm families cultivated less than one hectare (2.471 acres) and occupied only 5.7 percent of the cultivated land, while 0.05 percent of the farm families owning more than 100 hectares of land, occupied 13.1 percent of all the land under cultivation. By 1939 the percentage of families cultivating less than one hectare of land had climbed to 64.7 percent. Tenants had to pay exorbitant rents, and had to deposit as much as two years rent in money to secure any lease at all. There were seldom any written contracts between landlords and tenants, hence landlords could threaten cancellation of leases to get higher rents. Rentals ran from 50 to 70 percent of the annual yield. Because of the uncertainties of tenure and the high rentals, the farmers had little incentive or money to devote to improving the land or increasing production.⁶

Thus the land problems in Taiwan fall mainly into two categories, namely distribution and production.....The unjust distribution of land and, therefore, the unfair distribution of national income are closely connected with the production of land.⁷

6 Land Reform and Its Impact on Economic and Social Progress in Taiwan, by Yen-Tun Chang. Taipei, Taiwan, China, National Taiwan University Press, 1965, pp. 1-2.

7 Cheng, op. cit., p. 2.

In 1949 the Chinese Nationalist Government left the mainland of China and came to Taiwan. Shortly after that time, a three-step program of land reform was launched in 1949 and completed in 1963. The first step was rent reduction, the second, the sale of public land, and the third, the "Land-to-the-Tiller Program".⁸

8 Chang, op. cit., p. 5.

It was necessary to reduce rents first in order to relieve tenants of the injustice of exorbitant charges for land use and to give them the chance to acquire enough capital to purchase land themselves. On April 10, 1949 the first rent reduction law, known as "The Taiwan Privately Owned Land Lease Regulations," was promulgated by the Taiwan Provincial Government. **The maximum rental rate, under this law, could not exceed 37.5 percent of the total annual yield of the main crop.**

The purpose of carrying out the 37.5 percent farm reduction was to reform the unsatisfactory tenure system, improve tenants' livelihood, increase farm production and stabilize the social order in rural areas. Further, basing on the lease contract and the standard annual yield of the main crop, it would pave the way for the coming Land-to-the-Tiller program.⁹

9 Land Reform in Taiwan, pamphlet published by the Taiwan Provincial Land Bureau, Republic of China, May 1967, p. 3.

The law not only provided for a limitation of rent, but also the security of tenure (no less than six years), prohibition of deposit money, collection of rent in advance, and the termination of a lease before its expiration date. The Land Bureau of the Province carried out the law, and it did so through a series of committees, on which both tenants and landlords served. The committees not only supervised the signing of new contracts, but also checked and rechecked to be sure the law was observed.¹⁰

10 Cheng, op. cit., pp. 23-24.

There were three principal achievements as a result of the rent reduction. The first was an increase in farm production (up 47 percent in the period 1948-1952) and farmer's income (up 81 percent in the same time). The second was the improvement of living conditions. The third was a decline in the value of farm land, the average value of paddy fields in the province dropped by 19.4 percent in the first year of the program.¹¹

11 Ibid, pp. 42-45.

The second major step of land reform was the sale of public land. Public farm lands in Taiwan were those which had belonged to the various levels of government at the time the island of Formosa was returned to the Chinese by the Japanese in 1945, or lands privately held by the Japanese. From statistics compiled by the Land Bureau when all land on the Island of Formosa was generally classified, it is established that in 1952 when the sales of public lands were inaugurated there was 434,981 acres of such public land, or slightly over 21 percent of all the farm lands in the province.¹²

12 Cheng, op. cit., p. 49.

The sale price of the land was fixed at 2.5 times the annual main crops, which price was to be paid by the purchaser in 20 installments, over a period of 10 years. Farmers were permitted to buy from about one-half a hectare to two hectares of rice paddy land, and from one to four hectares of dry land.¹³

13 Chang, op. cit., p. 5.

There were six sales carried out between 1948 and 1958. Most of the purchases were a little less than one-half a half a hectare, but over the ten year period 139,688 farm families purchased land from the government, reducing the government's holdings more than one-half (275,305 acres were sold).¹⁴

14 Cheng, op. cit., p. 311.

The sale of public lands, the second step in the three-step program, was a transitional step on the way to the third and last step, the “Land-to-the-Tiller” program. This program was the final goal: providing the means whereby all the tenant farmers in Taiwan could become farmer owners. The law was promulgated by the national government on January 26, 1953. It set up a maximum limit of private farm holdings of three hectares of paddy land and six hectares of dry land. Land over these amounts tilled by tenants was purchased by the government and resold to tenants, landless farmers and other eligible persons. The price was the same as for the sale of public lands, 2.5 times the annual crop yield, payable in 20 installments over 10 years. The landowners were paid in land bonds (70 percent) and government enterprise shares (30 percent),¹⁵ and landlords were encouraged to enter industry and take over the government enterprises. Many have done so, and a number of the industries are now privately owned.

15 Chang, op. cit., pp. 5-6.

This three-step program was very successful as measured by any number of statistics. The whole economy of the island profited in several ways. The statistical data are not all uniform, but here are examples of them.

In 1948 of 640,854 farming families in Taiwan, 211,649 or 33.02 percent were owners, 154,460, or 24.10 percent were part-owners, 231,224 or 36.08 percent were tenants, and 43,521 or 6.8 percent were farm-hand families. In 1959, out of 818,953 farm families, 479,391, or 58.53 percent were owners, 182,121, or 22.23 percent were part owners, 118,890, or 14.51 percent were tenants, and 38,551 or 4.70 percent were farm hands.¹⁶

16 Cheng, op. cit., p. 312.

The increase in productivity is shown in the following tables: ¹⁷

17 Cheng, op cit., p 11-15

18

19 Chang, op. cit., p. 14.

The reality of these statistics is readily seen by an investigator visiting rural areas. They are seen in new farm houses, tractors, motor cycles, electricity, electrical appliances, better furniture, etc. There is no better way of seeing the effect of the land reform on the whole economy than to visit the farms.

Production increased faster than population growth. Although the population in Taiwan grew by 2.75 percent per year during the years 1936-1940, and by 4.61

percent from 1951 to 1955, the percentage of expenditure per family declined, and there has been no price inflation— both signs of food shortages.¹⁹

19 *Agricultural Development and its Contributions to Economic Growth in Taiwan*, by S. C. Hsieh, and T. H. Lee, Taipei, Taiwan, China, Joint Commission on Rural Reconstruction, Economic Digest Series No. 17, April 1966, p. 90.

What was the role that taxation played in all of this development? To discuss that it is necessary to return to Dr. Sun's principle of the equalization of land rights.

The equalization of land rights has four parts to it.²⁰

20 Hsias, op. cit., p. 3.

1. *The Assessment of Land Values*. Assessments, according to Dr. Sun's principle, were to be accomplished by requiring the land-owner to assess his own land and report the assessed value to the government. This value represents his land rights in that land and is the price for which the government could buy the land. All additional or incremental values resulting from social improvements thereafter represent public values and rights which the owner cannot claim as his own.

2. *Taxation According to the Reported Values*. After the land value has been declared by the land-owner, this declared value becomes the basis for the levy of land taxes. The basic rate of the tax is 1.5 percent. On land of less than .03 hectares used by the owner himself, the rate is only one percent. For industrial land, the rate is 1.5 percent. For lands in excess of .07 hectares, a progressive tax can be levied on the additional portions at rates from 2 to 7 percent, to prevent the manipulation of and speculation in land and facilitating the acquisition of land needed by actual users.

3. *Purchase of Declared Values*. The government may purchase land where the value declared is either too high or too low or to reduce excess holdings, or use land for purposes thought to be in the public interest.

4. *Land Value Increment Tax*. Values added to land by social changes, the so-called unearned or natural increment of the value of land belongs to the people and shall be taken by the government in the form of taxes. The rate of the land value increment tax is progressive, ranging from 20 to 40, 60, 80 and eventually 100 percent. The rate is determined by whether the unearned value exceeds the declared value by more than four times. If the unearned value is more than four times the declared value, the tax is 100 percent; if it is less the tax is progressive.

The purpose of surrendering the unearned increments to the public is to prevent landowners from enjoying by themselves alone the benefits of the increased value of

land on account of city development and economic prosperity and an excessive increase in land value. The fact that the trend toward the excessive increase in land value has slowed down may verify the effectiveness of the policy.²¹

21 Land Reform in Taiwan, op. cit., pp. 15-16.

These methods of equalizing land rights are based on the theory that the supreme right of the ownership of land belongs to the people exercising that right through their government, and that there is a common right of private ownership, which should be exercised by private persons on most of the land. According to Dr. Sun, the government must keep the supreme right of public ownership to prevent private land monopolies, to improve the just distribution of land particularly to farmers, to encourage if not force the fullest utilization of the land, and to make the benefits of the land accessible to all. Exercising its supreme right, the government can carry out such works as land consolidation, urban land consolidation, irrigation and drainage works, distribution of land, etc. Exercising the common right of private ownership, persons can buy or sell land (within limits), keep the produce of the land, and enjoy the earnings of this labor. The tax system is related to this theory.²²

22 Hsiao, op. cit., pp. 4-5.

The land tax system is presented in Part IV of the Land Law, promulgated by the National Government, June 30, 1930; enforced March 1, 1936; amended April 29, 1946. The land tax system is also governed by the provisions of Part IV of the Law Governing the Application of the Land Law, promulgated May 8, 1935; enforced March 1, 1963; and amended April 29, 1946.²³

23 Law taken from Cheng, op. cit., Appendix, pp. 133-190.

Part IV of the Land Law is divided into seven chapters. Chapter 1 contains the general provisions. Land taxes are of two kinds: the land value tax and the land value increment tax. The value of the land and its improvements are to be separately assessed, and the land tax is a local tax.

Chapter 2 differentiates between the value of land and the improvements on it. The value of land is to be declared by the owner, and the Municipal or County Land Office records this value according to the following procedure.

- (1) Investigation and assessment of the standard values of lands,
- (2) Declaration of the values of lands by their owners,
- (3) Compilation of land value rolls.

The standard values are based on samplings of market or income values of lands for two years according to grades. These values then become the standard values of the various grades and they are promulgated. Means for challenging and reviewing these

values are provided. The land-owner's declaration of the value of his property cannot deviate from standard values for comparable grades of land by more than 20 percent. Failure to declare results in the standard value being applied. Land may be re-assessed every five years, or after one year if the land price fluctuates more than 50 percent. When the land value is declared the value of constructional improvements is assessed on the basis of the original cost less depreciation. Repairs for maintenance are not regarded as improvements, whereas additions or new construction are. Values of improvements are confirmed by a committee on standard land values, and the owners are notified with a right of appeal to the committee for reconsideration.

Chapter 3 concerns the land value tax, and provides for annual levies according to a progressive scale on the basis of the land value, the basic rate being 1.5 percent. The basic rate applied to land which does not exceed an area determined by the local government and related to the productivity of the land. Land in excess of that is taxed progressively as mentioned before. The land-owner pays the tax. If his land is vacant, he must pay an additional vacant land tax until his land is duly used according to law, which shall not be less than three times nor more than ten times the land value tax levied on that land. Where private uncultivated land is not properly used it shall be subject to an additional uncultivated land tax of one to three percent of the land value tax on the land. The land value tax levied on lands owned by absentee landlords is double the amount of the regular land value tax.

Chapter 4 is on the subject of the land value increment tax. This tax is to be levied whenever ownership is transferred or after 10 years beginning from the time the land is assessed according to law. Where construction has taken place, as referred to in the preceding chapter, the increment tax is to be levied on sale, or every five years. The gross increment value is assessed as follows:

- (1) When a sale first takes place after the original assessment, the amount by which the sale price exceeds the original assessed value is the gross increment value of the land.
 - (2) In the case of transfer by donation or inheritance, the same standard is applied to ascertain the gross increment value at the time of transfer.
 - (3) In the case of further sales, the amount by which the last sale price exceeds the penultimate value is the gross increment value.
- If there is a violent fluctuation of commodity prices, the original value of the land shall be adjusted according to the local price index by the municipal or county financial authorities with concurrence of the local assembly. The rates are determined

as follows:

- (1) A net increment value is determined by subtracting from the gross increment any tax remissions.
- (2) Where the net increment value is no more than 100 percent of the original value of the land, the rate is 20 percent of the net increment.
- (3) Where the value is no more than 200 percent, the rate is 40 percent for the additional increment above 100 percent of value.
- (4) Where the value is no more than 300 percent, the rate is 60 percent on the last 100 percent.
- (5) Where the value is over 300 percent, the rate is 80 percent on the added percentage.

When land is transferred by sale without the right of redemption, the increment tax is levied on the seller; when transferred by gift or inheritance on the donee or heir. Where there is no sale within 10 full years since the assessment (or five full years in the case of the completion of construction works), the land value increment tax is levied on the land-owner. "In computing the net increment of the land value, the capital expenses incurred by the land-owner for the improvement of his land and the "construction benefit charge" paid by him, if any, be deducted from the gross increment of the value of his land." (Art. 184)

Chapter 5 concerns the tax on improvements on land. Constructional improvements may be taxed annually according to their assessed values, the maximum rate not exceeding one percent, and levied with the land tax. Improvements to the owner's home and agricultural improvements are not subject to taxation, nor are improvements on land of very low value (500 silver dollars per 0.1647 acre). This tax is a local tax.

Chapter 6 is on the reduction and the remission of the land tax. Public lands and construction improvements are exempt unless used by government enterprises or not used for public purposes. Tax on private lands may be reduced or remitted upon approval of the Executive Yuan of a joint request made by the Ministry of Finance and the Central Land Administration where the land is used for any of the following purposes:

- (1) Premises for schools and academic institutions.
- (2) Parks and public athletic grounds.

- (3) Experimental stations.
- (4) Forest land.
- (5) Premises for public hospitals.
- (6) Public cemeteries.
- (7) Other lands used by non-profit undertakings for the promotion of public welfare. Taxes may be reduced or remitted in the case of calamities. Land reserved for compulsory purchase, if thrown out of use, may be exempt. Land in the process of reclamation is exempt. Land used by a farmer for his home and garden plot are not taxed, if they remain untransferred after the lapse of ten full years from the original assessment. No land value increment tax shall be levied on any farm land when its value appreciates as a result of the application of labor and capital by the farmer. Whenever the cause for any tax reduction or remission ceases to exist, the tax shall be restored to normal.

The final chapter is concerned with tax delinquency and provides for the acquisition and sale of delinquent properties by public authorities by auction, after two years in the case of the land value tax, and one year in the case of land value increment taxes.

A check on how the land law's tax provisions have worked may be made by noting the effects of the law on urban land as reported by the Provincial Land Bureau.

The remarkable results of the equalization of urban land rights may be summarized as follows: (1) large land-owners sold 28 percent of their urban land; (2) the number of absentee land-owners was reduced by 59 percent; (3) the number of owners of urban land increased by 14 percent ... (4) the area of land used for construction increased by 700 percent as compared with 1963 — the year the project of the equalization of urban land rights was instituted; (5) the number of newly built houses increased by 229 percent as compared with that of 1963; (6) the area for newly built houses increased by 330 percent . . .; (7) the amount of funds used for social welfare increased by 410 percent. In short, the figures of items 1 through 3 show the diversity of urban land rights gradually, while those of items 4 through 6 indicate that urban land in Taiwan has been rationally utilized. Finally, the figure of item 7 shows that people on this island benefit widely from social welfare.²⁴

24 Land Reform in Taiwan, op. cit., pp. 17-18.

None of these provisions work perfectly, but they do work. There is no question that the land tax methods used in Taiwan have contributed very much indeed to the

progress of land reform, the increasing of agricultural production, and the growth of the economy. The tax laws are fair and they are not burdensome. They are certainly not static or rigid, and are so designed that they more accurately reflect the socio-economic changes in Taiwan than our land tax laws reflect the changes in the United States. They encourage, rather than penalize, the improvement of homes, farms and agricultural lands, and that encouragement is reflected in the visible continuing improvement of farm properties on Taiwan. The tax laws also discourage the creation of blighted and slum areas, and although the large cities of Taiwan and some of the farm areas do have some run-down sections, they are very limited in comparison to the crowded conditions of the cities and the lower standard of living.

The land tax laws have brought an end to land speculation of any consequence. There just aren't vacant lots and misused pieces of property on the island being held by speculators awaiting higher prices. Land planning is greatly assisted by the tax laws since they encourage the most productive use of the land, and that is often partially determined at least by the planning authorities. The land law, including its tax provisions, has been gradually implemented by concentrating on specific places in town and country, and allowing the people to see the results. All local implementation has been done with the participation of local residents, whose advice and counsel have been followed in adapting the law to each locality. There has been no organized resistance to the land reform, partly because of its inherent justice and the soundness of its land tax laws.

The success of land reform on Taiwan is of great importance to the world and to developing countries. While mainland China suffers from malnutrition and must import food, the Chinese on Taiwan have a good balanced diet and are exporting food despite an increasing population. The economy of Taiwan is well balanced, its agriculture is a flourishing general business community. Dr. Gerald H. Huffman, the American Commissioner on the Joint Commission on Rural Reconstruction, wrote a good summary in these words:

The Republic of China has embraced this policy of balanced agricultural-industrial economic growth in the development of the Province of Taiwan. Taiwan's agriculture has responded by making rapid strides in total physical production, practically doubling agricultural output in the fifteen-year period preceding 1965 without any appreciable changes in the area of cultivated land. And at present the Province of Taiwan is moving steadily forward in industrial development due, in part, to the establishment of a solid agricultural base, involving a higher level of production and productivity of the island's 800,000 farms accompanied by a rising prosperity of its farming population.²⁵

25 Hsieh and Lee, *op. cit.*, Introduction.