

SCHEDULE A OF THE INCOME TAX

Would an Amendment of it Expedite Land Value Taxation?

A PROPOSAL INTENDED to "expedite the taxation of land values" or at least to be a stepping stone to it has been submitted to us for comment. The essential features of this proposal are as follows:—

(1) All immovable property to be assessed for Income Tax Schedule A at 5 per cent of its selling value.

(2) Owners are to make a return of what they estimate the selling value to be, but such estimate shall not be less than 20 times the net annual rent. The Valuation Officer may increase the amount of the estimated selling value, but in that case the owner shall have a right of appeal.

(3) The State or the local authority may at any time purchase the property at the capital value so ascertained, plus compensation for disturbance.

We have summarized the proposal so as to bring out its essential features, and have omitted the complications which may arise where land is subject to leases, or in Scotland is feud.

The effect of it will be that an annual sum in respect of unoccupied land will be treated as part of the owner's income. In some other cases the assessment for Schedule A may be increased if the land with the improvements upon it is worth more than 20 times the net annual rent.

Now let us see whether this is a proposal for expediting the taxation of land values.

It is certainly not a tax on land values. It takes no account of the distinction between the land itself and the improvements on or in the land.

It simply effects an alteration in some cases in one element in computing a man's liability to income tax. It alters the Schedule A component of his income tax return in any case where the assessor considers that the present valuation for Schedule A is less than 5 per cent of selling value.

The essence of a tax on land values is that it should be on land value only and not on improvements, and that it should be at one uniform rate without exemptions or discrimination. In the exigencies of political life that may not be completely attainable at any particular moment, but it should be aimed at. To aim at anything else is to make certain of missing the target altogether.

The essence of an income tax is that it is graduated, discriminatory, and subject to exemptions or abatements. No income tax could ever work or be tolerable otherwise. Hence the proposal involves some additional taxation by way of income tax. The addition is not necessarily related to land value; it may arise because the Schedule A was not 5 per cent of the value of the improvements. The addition is entirely arbitrary and unequal in amount as between equal values because it depends upon the personal position of each tax-payer, and upon the amount of his income from all sources.

The result of the change if it were made would never be known. Without infinite labour it could never be ascertained what difference it had made to the revenue. Every assessment containing an element of Schedule A would have to be analysed. Even then the result would be completely ambiguous, according as one looked at it from the point of view of the average rate of tax borne by the individual or from the point of view of the maximum rate brought into play. In the case of companies any increase in taxation would ultimately fall on their shareholders, who in many cases reclaim the tax deducted from their dividends. The ultimate incidence and rate in this case would be still more unascertainable.

The proposal is said to be a means of exacting some taxation from vacant land. There is nothing new in taxing vacant land. It is done all over the United States, and in other countries, where assessments of local and state taxes on immovable property are based on capital or selling values. There is not the slightest evidence that the existence of such taxation has of itself done anything to promote land value taxation. It is doubtful whether it has had much beneficial economic effect. Indeed it is well known that the burden of the taxation so levied upon improvements is such that the building of them is frequently discouraged and sometimes they are pulled down.

The proposal does not create a valuation roll, not even of the selling value of the land and improvements and still less of the value of land apart from improvements. Whatever values are established will be secret, because all matters relating to income tax are secret and public opinion in this country is not likely to tolerate anything else.

Even if it did create a valuation roll of total value of land and improvements, we should be no nearer the taxation of land values. It would still be necessary to value the land apart from improvements. To attempt to arrive at the land value by valuing total value, then valuing improvements, and lastly deducting the latter from the former means two valuations instead of one. It is impossible to value improvements in the abstract. The value of old improvements depends upon the situation and whether they are adapted to the site or not. Cost of construction or of reconstruction is not decisive. Once the valuer is involved in considerations of this kind his task becomes hopeless, and the valuation becomes bogged in the same troubles as overtook the Lloyd George attempt of 1909-10, and for the same reasons. (The legislation in New Zealand, for example, gives effect to the considerations referred to by defining the value of improvements as the amount by which they increase the value of the land; and this implies that the land value must be ascertained first in order to ascertain the value of improvements, and not *vice versa*.)

The proposal to allow the State to purchase the land at the capital value returned is no doubt intended to frighten the taxpayer into making a high estimate of the selling value. But if the object is to levy a tax, it is the duty of the assessor to see that the valuation is a fair one, otherwise inequality between taxpayer and taxpayer is bound to arise. That inequality is not cured by the State purchasing the land. In any case either the State requires the land for State purposes or it does not. If it does not, an unnecessary transaction is entered into as a concomitant of a tax measure and without any intrinsic merit (unless it be as a step towards nationalization of the land together with the improvements.)

The numerous complications which would arise in the case where land is subject to tithes, perpetual rents, terminable rents and other incumbrances need not be examined here. One only need be mentioned. If it were proposed that returns of capital value should be established for the shares of ownership vested in lessors, lessees and others having an interest in land, it would be essential that the total should equal the selling value of the unincumbered freehold. In many cases this would not be so, and the task of reconciling these various values would be extremely troublesome. All of this is quite unnecessary for land value taxation.

Finally, what is the purpose of this proposal? Is it dictated by considerations of political expediency? If so, it is bad politics because it conceals the main objective and confuses the electorate. If it were done, there would still have to be a campaign for the taxation of land values and the separate ascertainment of the land value. That campaign would have gained nothing from what had gone before. The time spent upon the proposal under examination would have been wasted. The art of political achievement in a democracy is to state and work for a clear principle which can be popularly understood. If political expediency is the dominant

thought, then this is not the way. Far better to continue the agitation for the local rating of land values and relief of the present rates. Let us not discourage or ignore the large body of opinion in municipal circles which favours land value rating. It was in this way that the idea of land value taxation became a political issue. We have a system of local taxation which is levied upon immovable property, not complicated like the income tax with graduations, exemptions and abatements. The reform of that by land value rating is a clear cut and simple issue, and is more likely to lead to immediate results than digression into a desolate by-path.

FAMILY ALLOWANCES, DOLES AND NATIONAL CHARACTER

WOMEN'S LIBERAL FEDERATION,
23 GAYFERE STREET, S.W. 1.

To the Editor, *Land & Liberty*.

SIR,—As you point out in your leader I personally in my previous letter stood by the phrase that in this country at the moment children are the chief single cause of poverty, though that wording was altered in the resolution on Family Allowances, submitted to and carried by the Liberal Party Assembly.

It astonishes me that anyone can apparently seriously assume that this statement is meant to represent a final and complete analysis and summary of all the many and complex causes which, operating in the past and in the present, have made and make up our present society with its grievous and monstrous inequalities of wealth and opportunity. It must be taken in its context as a vivid pointer to the fact that even wages considered good by most contemporary standards may be good for a family with one child but spell poverty and malnutrition for a family with several children. Had we deplored the number of children instead of desiring immediately to cherish them there would have been point in the reference to Malthus: as it is there is none. Surely our enthusiasm for Family Allowances is in itself a demonstration and proof of our recognition of their value to society; and my imagination fails at the thought of Malthus asked to support a measure entitling parents to draw an allowance for every further child born to them. Also I might remind you that it was in despair of any practical measure to help the hunger of the Irish children that Swift was driven to the bitter irony of the Modest Proposal.

Family Allowance is one item merely—but one which could be of immediate and startling value—among the many advocated by the Liberal Party with the aim of increasing the production of goods and services available for the enjoyment of all people in a better distribution and, where necessary, in a better redistribution, than we have now.

Yours faithfully,

1st November, 1941.

MARGARET DEAS.

To the Editor, *Land & Liberty*.

SIR,—Readers of "On Compromise" must wonder what that great Liberal John Morley would have thought of the mental process by which your correspondent, in your last issue, concluded that "in other words the greatest single cause of poverty in this country is young children." The English are indeed unfortunate when "primitive" men, with only a fraction of our resources, but with access to land, can maintain happily not only

one family but two or three wives each with a family! Your article dealt adequately with the subject, but would you allow another Liberal to point out that, however we may accept some state charity as necessary while injustice prevails, confidence in liberty cannot admit it as necessary in the truly liberal state?

Morley quotes that other great Liberal, John Stuart Mill, to the effect that "we must shape our social arrangements so as to stimulate the best parts of character." Our sociologists of the moment do not seem to have noticed that most of our laws have the opposite tendency. By accepting a proportion of the gains of monopoly our government compounds a felony; by taxing the earnings or restricting the operations of free industry and trade it discourages thrift, enterprise and self-reliance; by distributing doles, privileges and subsidies it encourages wholesale pauperisation which is none the less demoralising because it has other titles. The Speenhamland system cannot be made innocuous by making it universal. Already, aided by our grotesque voting laws, we have reached a situation when almost all politicians must promise more doles in order to maintain their seats. What shallow conceit it is to suppose that we alone shall escape the tragic fate which has overtaken all previous pauperised societies!

While the tradition of liberty still prevails it is surely more useful to show how true liberty will enable all to provide amply for themselves than to advocate any measure which seems to imply that self-reliance is impossible.

Yours, etc.,

31st October, 1941.

FRANK DUPUIS.

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