

WHY LAND TAX EXEMPTIONS ARE UNSOUND

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THE AMOUNT of ground rent available for public use can be altered in different ways. Assessment practices, tax enforcement procedures, centralised controls and aids can affect public rent collections as much as a shift of the local tax base from buildings to land. Those who want to improve the public revenue system can do so more effectively if they are familiar with all such avenues of advance.

One avenue that is already important and which will be more important in years to come is abolition of the special tax exemptions enjoyed today by certain private lands. Much public land is also tax exempt, but this presents a different problem, as will be shown.

Special exemption from the tax rates imposed on land generally is, on its face, a violation of the principle that land rent belongs to the public. The rent is not collected; it is forgiven. It remains in private hands.

Defenders of exemptions do not permit the case to be closed so summarily, however. The exemptions, it is argued, are given only to certain "non-profit" or "welfare" organisations that perform "public" services. The rent they keep is therefore devoted to "a public use." In this view, the exemption does not violate principle after all, but constitutes, along with leasing and taxing, a third way of socialising rent.

If it is determined that certain welfare organisations are indeed performing public services and deserve the support of public money, tax exemption is not the only way to provide it. Direct subsidies can be given. Direct subsidies, being known in amount and subject to reconsideration every year by the same elected representatives who are responsible for the public budget, would be subject to the established controls. The annual reconsideration of existing exemptions is no more than a tedious formality that weighs neither the value of the service performed nor the value of the land exempted. Exemption is not expenditure. It is non-collection. It is private retention of rent unaccounted for.

In the U.S.A. many state constitutions allow land to be held tax-exempt by certain types of welfare organisations to which appropriations of public money are, as a matter of policy, denied. Here is a profligate settlement. The lesser privilege of controlled appropriations is denied. The greater privilege—uncontrolled retention of ground rent—is allowed.

This inconsistency stems from the habit of seeing all taxes as invasions of a sphere that is rightfully private. The exemption of land from taxation is not seen for what it is—the denial of a common right. Taxes are looked

upon as a necessary evil from which, if it were only possible, all should be relieved, and from which we can at least relieve those deemed worthiest.

It would make as much sense to relieve such welfare organisations of their municipal water bills. Taxes upon land are not invasions, but dues. They should be collected with the same firmness a municipal water department shows to its customers. If a desperate, deserving water customer cannot pay his bill, he turns, not to the water department for exemption, but to the welfare department for a grant-in-aid. Land taxes should be collected with the same inflexibility.

The familiar evils that result from exempting *all* land from taxation are visible when *some* land is exempted. Consider land speculation, for example. Exempt interests are placed in a particularly favourable position to speculate in land values, since they are not even subject to the small taxes other land speculators must pay. Many a welfare organisation, faced with the question whether or not to move from land that is unnecessarily valuable, postpones the move in anticipation of getting a higher price later. Were they subject to taxation the same as other landholders, the annual tax bill would promote better use, or surrender of the land to someone who could use it better.

The same kind of inequality that results when land generally is relieved of its financial obligations exists on a proportionate scale when certain lands are tax exempt. One welfare body may occupy extremely valuable land in a growing business district; another may be in a poor residential neighbourhood. Tax exemption may be of immensely greater benefit to the one in the growing business district, yet the organisation in the poor residential neighbourhood may be better located for performing its service. A third welfare body, possibly more useful than either of the other two, may be a non-landholding tenant, and therefore incapable of benefiting from tax exemption. A marginal business which, by strictly objective standards, may be of greater public service than any of the non-profit welfare organisations, is also excluded from the exemption privilege. Thus land tax exemption bears no relation to the value of the service performed.

Consider the snooty regulations, the red tape and paper work necessarily involved in land tax exemptions, as in any other form of special privilege. When certain land uses involve the privilege of holding land tax-exempt, definitions of that use must be established, applications and reports must be devised to make sure that that use

is continued, and borderline cases must be resolved. Privilege and regulation inevitably go together.

The exemption privilege also involves the possibility, realised in more than one modern nation, that tax-exempt interests will acquire large areas of valuable land. Whatever their intentions, whatever the sentiments in their favour, these interests, because of their privilege, stand separate from the common man, vulnerable to the claims of equal justice.

Where land and buildings are taxed together, they are generally exempted together. The proper solution, of course, is to exempt the building and tax the land. If a choice is to be made between taxing both or exempting both, taxation has two advantages: (1) It avoids the worse alternative of a non-property tax which does not fall at all upon land as such; (2) It enlists welfare bodies in the drive to untax buildings. Exemption of both their land and buildings places welfare bodies in a position where they stand to lose rather than gain from the advent of sound taxation. This is not the way to win allies.

The exemption of government-held land from taxation must be considered separately. When a government declines to tax itself, the tax saving is enjoyed by the same body that suffers the revenue loss. The two figures wash out. The exemption is no more than a change of book-keeping. Even so, it is a change to worse book-keeping, for the public budget no longer shows all costs. Nowhere does the budget reveal how much revenue is lost because public facilities occupy sites that otherwise would yield taxes. Many a city hall would be moved forthwith if its true cost became starkly visible in the city budget through loss of tax exemption.

But a more serious problem is presented when one government body holds tax-exempt land within the jurisdiction of another. Here tax exemption involves more than a change of book-keeping because the tax saving is enjoyed by one body while the revenue loss is suffered by another. Justice is not necessarily served, however, by requiring each government to pay taxes upon its holdings to every other government within whose jurisdiction these holdings lie. The federal government of the United States, for example, makes payments in lieu of taxes to so-called "federally impacted school districts," yet the federal government itself levies no tax upon land. Thus these payments in lieu ultimately increase the burden on federal income-tax payers and replace local taxes upon land.

A happier settlement has been reached among local governments in California. Some metropolitan counties in California have large holdings in other counties from which and through which they draw their necessary water supplies. Years ago the counties in which these holdings lay complained of the large revenue losses occasioned by tax exemption of such public property. The counties holding title, for their part, thought it unfair that they should make all improvements yet be taxed on them for the benefit of the countries in which they were erected. A compromise was reached under which any local gov-

ernment holding land outside its boundaries pays the regular annual tax upon that land but no tax upon the improvements on it. And so today the San Francisco airport, situated in San Mateo County but owned by the city for which it is named, is taxed by its host upon its land value only. The terminal buildings are exempt.

But in any case the tax exemption of publicly owned land differs fundamentally from the exemption of land that is privately held. For not only do the enhanced land values inure to a public treasury but, given republican government, that same public can alter the land use at will.

The underlying sentiments which favour private land tax exemptions are two: (1) Partiality to an exempt interest; (2) Distrust of democratic government: private welfare organisations are felt to perform public functions more effectively than publicly elected representatives.

As to the second sentiment, two points must be made: (1) Government efficiency is conditioned by the source of public revenue. Direct taxes on land promote efficiency. (2) Surrender of the public revenue to private welfare bodies amounts to abandonment of common rights to land. The rent fund is no longer administered by elected representatives, but by a select aristocracy.

We must choose between representative government and unequal rights to land. There is no third position.

The Meaning of Liberalism

TO THE liberal mind the notion that men can authoritatively plan and impose a good life upon a great society is ignorant, impertinent and pretentious. It can be entertained only by men who do not realise the infinite variety of human purposes, who do not appreciate the potentialities of human effort, or by men who do not choose to respect them.

The liberal state is to be conceived as the protector of equal rights by dispensing justice among individuals. It seeks to protect men against arbitrariness, not arbitrarily to direct them. Its ideal is a fraternal association among free and equal men. To the initiative of individuals, secure in their rights, and accountable to others who have equal rights, liberalism entrusts the shaping of the human destiny. It offers no encouragement to those who dream of what they could make of the world if they possessed supreme power. . . . It relies upon the development of the latent faculties of all men, shaped by their free transaction with one another. Liberalism commits the destiny of civilisation not to a few finite politicians here and there, but to the whole genius of mankind. This is a grander vision than that of those who would be Caesar and would set themselves up as little tin gods over men.

Walter Lippman in *The Good Society*.