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Taxation of Land: Papers Bearing on Land Taxes and on Income-tax, etc., in Certain Foreign Countries, and on the Working of Taxation of Site Values in Certain Cities of the United States and in British Colonies

Author(s): Stanley H. Turner

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It is not possible to make detailed comparisons of annual earnings on these lines, since such earnings have been calculated only for all workpeople together, without distinction of age or sex. The calculations show that average annual earnings in the textiles range from £29 10s. (in the linen and small wares industries) to £54 10s. (in the lace and bleaching, &c., industries), the average for all the textiles being £43 10s. In the clothing, &c., trades the range is from £29 (in workshop laundries) to £58 10s. (in the fur trade), the average for all the trades being £37. The same degree of reliability cannot, however, be attached to the latter figures as to the former, since the assumption which is made in each case—namely, continuity of individual employment—is probably much more true of the textiles than of the clothing trades. On this account, it is unprofitable and certainly risky to attempt to estimate, from the data given, the annual earnings of men and women separately. No comparison is made in the Report with the results of the 1886 census, because the returns relating to the clothing trades in that year “were not sufficiently representative to warrant comparison.”

As regards weekly hours of labour in these trades, the numbers appear widely scattered over the range from 50 to 57. In the textiles, hours were found to be much more concentrated about the average number 55 to 55½.

It may be mentioned that both this Report and the earlier one contain a brief but useful bibliography of the principal wages statistics published by Government departments in the United Kingdom, British possessions, and foreign countries.

A. D. WEBB

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*Taxation of Land: Papers Bearing on Land Taxes and on Income-tax, etc., in Certain Foreign Countries, and on the Working of Taxation of Site Values in Certain Cities of the United States and in British Colonies.* (Cd. 4750; Price 2s. 7d. Second Series, Cd. 4845; Price 8d.)

At the first glance these memoranda prepared for the Chancellor of the Exchequer appear almost bewildering in their variety, but that is chiefly due to lack of intelligence in arranging them. They may be classified as follows :—

- (1) Direct taxation in Germany and France;
- (2) Taxation, rating, and valuation of land in British Colonies;
- (3) Extracts relative to rating and valuation of land from

reports and evidence of Royal Commissions and Parliamentary Committees;

(4) Taxation of land in certain Foreign Countries.

Under the first head an attempt has been made to show very briefly what direct taxes are paid by German and French subjects, and Sir Francis Oppenheimer contributes a most useful account of the State and Municipal Income-tax in Prussia.

Most of the material which falls under the second head appeared three years ago in a Blue Book on the *Working of the Taxation of the Unimproved Value of Land in New Zealand, New South Wales, and South Australia* (Cd. 3191), and was referred to by Prof. Cannan in this JOURNAL.<sup>1</sup> A judicious paper of later date on Queensland by a former mayor of Brisbane indicates some of the problems which arise when buildings are relieved from rates. In 1902 "the last shred of consideration as regards improvements as a factor in any valuation of rateable property for local government purposes" was swept away in Queensland. The principle had been gradually developed on the view that "a premium should be held out, or, at worst, no discouragement offered, to the improvement of the unexploited lands of a new country." But in Brisbane "services of a personal nature, such as sanitary services, are not rated upon the land," while a variety of functions such as poor-relief and education, which are often undertaken by local governments in other countries, are not a burden upon the local authorities there. Very suggestively we are told that when a proposal was brought forward to make the General Hospital a partial charge upon the rates in Brisbane, it was defeated largely because of the obvious unfairness of placing such a burden upon land alone; and the opinion is expressed that "as taxes increase, and especially as fresh duties have to be undertaken, all the issues will be less simple. Other forms of property will be looked to for contribution as well as land," for there will be "brought into prominence the disproportion of the value of the property responsible for the rate in comparison with the total value of the property benefiting under the expenditure of the same." Mr. Pember Reeves gives a succinct history of the land taxes in New Zealand, and Mr. T. A. Coghlan adds three pages on those of New South Wales.

The third class, occupying over one-third of the volumes, consists for the most part of excerpts from the reports and evidence of the Housing Commission of 1884, the Local Taxation Com-

<sup>1</sup> Vol. XVII, p. 46.

mission of 1901, and the Select Committee on the Land Values Taxation (Scotland) Bill of 1906. As students of local finance are already familiar with these, and most of the schemes set forth therein for rating land values have been dealt with in the *ECONOMIC JOURNAL*<sup>1</sup> by Prof. Edgeworth, it is unnecessary to enlarge upon them here.

The fourth class, though occupying only a very small portion of the volumes, will probably be the least familiar and the most interesting to economists of the subjects treated in these memoranda. The section devoted to "Taxation of Land Values in Certain Cities of the United States" need not, however, detain us, for the title is ill-chosen. In New York, Boston, and a few other places, the valuations of site and building are separately made, but the taxation is levied upon the capital value of the composite whole, and not separately upon the site value. On the other hand, the clear and concise paper by Mr. Bernard Mallet on the taxation of increment value in certain German cities, with which the first volume opens, deserves the attention of all students of finance. The application of Mill's doctrine of the "peculiar taxation" of unearned increment in land values appears to have been successfully accomplished in Frankfort-on-Main since 1904, and is now being copied by other important municipalities. Doubtless it has also suggested the main lines of the increment tax in the Budget of Mr. Lloyd George. For over a century there has been an *ad valorem* tax on changes of ownership of real property irrespective of increase in value, and in Frankfort the increment tax (*wertzuwachs-steuer*) of 1904 is levied by additions to this when land changes hands by purchase or exchange, but not by inheritance; the sale price being normally taken as proof of value. This additional tax varies (i) according as the land is or is not built over, (ii) with reference to the period since the last sale, and (iii) with reference to the increment which has accrued.

Where built-on land has remained in the same hands for at least twenty years, the increment tax is based simply on the selling price of the land and buildings together, rising with the length of the period since the last sale. Unbuilt land which has not changed hands for twenty years pays on a similar but higher scale. The assumption is made in these cases that an increase of value has accrued, but if the owner can show that the present is not higher than the former purchase price when allowance is made for the cost of any building that has taken place, or

<sup>1</sup> Vols. X, p. 487, and XVI, p. 66.

that the difference between the prices is not more than the amount of the tax, this special taxation is not exigible. Where less than twenty years have elapsed since the previous change of ownership, the actual increase of value is ascertained, allowance being made for expenditure on buildings and improvements, legal costs and transfer taxes, and, in the case of unbuilt land which has not been used for agriculture or business, allowance is also made for interest. If the increase in value is less than 15 per cent. no tax is levied upon it, but in other cases from 2 to 25 per cent. of the increment is taken by the municipality according as the increase has been a small or a large percentage of the value.

It will be observed that this taxation is retrospective in effect, and depends for its possibility upon the existence of a very detailed system of land registration which is there possessed in the *Grundbuch*, supported by the imposition for a long period of the *ad valorem* tax on contracts of sale. The freehold system also prevails in Frankfort, so that there are none of the complications inevitable under leasehold. On the whole, therefore, the tax appears to have worked without friction, the cost of collection is low; and Mr. Mallet, considering that official opinion might be biased in its favour, did not discover among the independent citizens whom he consulted "any reprobation of it as socialistic or oppressive, or as having checked business transactions in real estate." Some difficulty has, however, been experienced through the formation of companies which own and transfer property without such a sale as would render the transactions liable to taxation. We gather that these companies operate by means of a transfer of shares, and not changes of ownership of particular pieces of land. Difficulties also arise when an estate is broken up and sold in lots, for in this case it would appear to be necessary to estimate the increment on each lot separately.<sup>1</sup> The yield of the increment tax in Frankfort, a town with a population of 335,000, was in 1906 £55,282, quite apart from the yield of the ordinary *ad valorem* tax on transfer; and it is noteworthy that much more than half this sum was levied on property which had been held for periods less than twenty years, and which had increased in value more than 15 per cent.

The example of Frankfort was followed by Cologne in 1905, where the scheme of the increment tax is simpler, being levied

<sup>1</sup> In the Dresden scheme of 1908 a very peculiar, if simple, method of dealing with this problem was adopted. The purchase price of each lot is taken to be its proportion of the purchase price of the whole, having regard only to the relative areas.

in all cases upon the increase in value since the previous change of ownership if such increase exceeds 10 per cent. With the object of placing the heaviest burden upon speculators who have made large profits in a very brief time, the rate of the tax varies from 5 to 25 per cent. on property which changes hands within five years; if between five and ten years have elapsed, the rate is two-thirds of this scale; and if over ten years, the rate is one-third. The allowances in addition to the former purchase price are very much the same as in Frankfort.

In Hamburg, in addition to the existing *ad valorem* tax on contracts for the sale of real property, the Income-Tax Law of 1903 had attempted to tap unearned increments by taxing as income the difference between the selling price and the purchase price of real property, expenditure on permanent improvements being added to the latter in making the calculation. This plan, however, proved to be defective, because by Imperial law an income-tax must be assessed at the place where the liable person resides, and in Prussia such profits on sale were not counted as income. Further, the income-tax is levied for any year on the basis of the income of the preceding year. Hence the geographical position of Hamburg made it very easy to evade this tax on profits of sale by removal to such a suburb as Altona, and it was found in practice that this frequently happened. An increment tax of the Frankfort type cannot, of course, be evaded by change of residence, and therefore last year Hamburg decided to adopt that model. Here, as in Cologne, the tax is in all cases levied on the increase in value, calculated in the manner formerly employed for the income-tax. If the increase does not exceed 2,000 marks, the tax is 1 per cent., rising to 5 per cent. when the increment is over 40,000 marks. If the increment exceeds 10 per cent. of the purchase price, an addition of from 10 to 100 per cent. is made to the rate of the tax. If the property has been less than ten years in the ownership of the vendor, the amount leviable is further increased by one-fourth; but if it has been over thirty years in the same hands, the amount leviable is diminished by one-fourth. The effect of these four rules is that increments are taxed when property changes hands to an extent varying between  $\frac{3}{4}$  and  $12\frac{1}{2}$  per cent. of the increase. In contrast to Frankfort and Cologne, the Hamburg plan touches even the smallest gains, and makes no allowance for interest in the case of land which has not been yielding an income. One would expect this to operate as a slight check upon speculation by harassing enterprise.

STANLEY H. TURNER

*Report on Changes in Rates of Wages and Hours of Labour in the United Kingdom in 1908.* [Cd. 4713.] There was a decline of wages, a reduction of hours.

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*Census of Production.* [Cd. 4896.] Preliminary figures relating to the output of mines and certain leading trades.

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*London County Council: London Statistics.* Vol. XIX. 1908-9. This annual differs from its predecessors by the omission of some details and the addition of a section dealing with "Old-Age Pensions." The number of old-age pensions granted in the Administrative County of London up to June 30th, 1909, was 43,698; amounting to over £500,000 per annum, equivalent to an average rate of nearly 3d. There are forty-four other sections dealing with an immense variety of statistics.

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*Interstate Commerce Commission Special Report.* Inter-corporate relations of railways in the United States is the subject of this first number. The large extent to which some railway companies have interest in and control over others is exhibited by tables and diagrams showing the par value of the total amount of securities which is held by the railways within each "system," and the par value of the amount of such securities which is held by the railways outside their own systems; with other relevant statistics.

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*Report of the Commissioner of Corporations on Transportation by Water in the United States.* Part I.—"General Conditions of Transportation by Water." Part II.—"Water-borne Traffic."

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*Family Budgets in Germany.* (Berlin: Heymann.) An official investigation showing the household expenditure of over five hundred workpeople with an annual income averaging over £91, and over three hundred persons of other classes with somewhat higher incomes.

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*Workmen's Compensation Statistics.* [Cd. 4894.] The first of a new series.

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