Taxing of Land Values in Theory and in Practice

(By Fimta).

In the Canadian Municipal Journal for April, 1920, two interesting articles appeared on the subject of the Taxation of Land Values.

From the first articles it appears that The Tax Reform League of Eastern Canada recently addressed an open letter to Canadians under the title of "The Solving of the Problem", which in effect is to urge the taxation of land values as the best means of raising sufficient revenue to meet the increasing National, Provincial and Municipal indebtedness.

The letter sets out very forcibly the so-called iniquities of the present system whereby improvements are taxed, and points out that every producer is handicapped by special taxation, and that such taxation is virtually an additional cost of production, and proceeds to argue that one of the quickest ways to decrease the cost of living is to repeal all taxes upon things made by industry. "Land", it says, "is the only thing which can be taxed without increasing its selling price. For. to tax land is to made it harder to keep unused, and the higher the tax the lower will be the selling price, and in this way the high taxation now necessary, if applied to land, can be made a benefit instead of a burden."

I must say that this statement of the case is unconvincing to me.

I cannot imagine why the law of supply and demand should not apply to land as to anything else.

The League's letter suggests—and it is no doubt true—that taxation of industry, or of the buildings and other means of carrying on industry, is merely passed on to the consumer of the products of that industry, but that surely is only because a demand exists for the products in excess of the supply. If the supply exceeded the demand, any additional taxation could not be passed on to the consumer, so that it is not true to say that "Land is the only thing which can be taxed without increasing its sellign price."

In the instance cited, the taxation—on the buildings for example—would be passed on until the time arrived when the supply of the products equalled the demand, and meanwhile the buildings would, in all probability, have increased in value year by year ; it is only right that they "should" increase in value, at least, to the extent of a fair rate of interest on the money sunk in them.

On the arrival of the time, however, when the supply of the products equals the demand, no amount of additional taxation will increase the price of the buildings or of the commodities produced therein, because, in order to maintain the price which has enabled the producer to pass on his taxation to the consumer, he must, in common with his competitors, restrict his output.

If it were possible to control output so that it always exactly satisfied demand, the business—except for normal growth of demand—would be at a standstill, and would be exactly comparable, for taxation purposes, to a piece of vacant land, that is to say, if it increased in value at all, it would do so not because of any effort on its own part, but because of its environment. Any attempt in these circumstances to impose additional taxation upon the business, because of increased value due to its environment, would have exactly the same effect as such an attempt would have in the case of land, that is to say, it would tend to force the business into the market, and, again as in the case of land, "the higher the tax the lower will be the selling price."

Having considered the matter from the standpoint of one of the things, viz., business premises, which, under certain circumstances, can increase in price in spite of additional taxation, let us now consider it from the standpoint of land, which, according to the League, "can be taxed without increasing its selling price", and in respect of which "the higher the tax the lower will be the selling price."

In a community which is growing very rapidly, it is quite conceivable that land for which there was a great demand would increase in value so appreciably that the owner would by no means be forced to sell by increased taxation. The enforced selling—as in the case of the business premises—only operates when the demand tends to slacken.

If the demand were sufficiently strong, the owner would be able, just as easily as in the case of the business premises, to pass the taxation on to the consumer. It is true that he could not do this as and when the tax was payable, but he could, and would, capitalise the tax and add it from year to year, with "compound" interest, to the selling price of the land exactly in the same way as he capitalises the interest on the money sunk in the land. Even if he were not a wealthy man, he would, no doubt, be able to find a mortgagor who would be ready to grant him such accommodation as would enable him to hold the land until he was able to get a remunerative price—remunerative, that is to say, so as to cover all his outgoings, viz,. taxation, interest, etc.

If, on the other hand, no effective demand existed for the land, or if the cessation of that demand was in sight, any additional taxation would immediately have the effect —as in the case of the business premises under like circumstances—of forcing the land on to the market, for the simple reason that prospects would not warrant its being held. But, obviously, in this event, the value of the land begins to fall, and logically the assessment should fall also. If, when a sale is enforced by taxation, the assessment is not reduced, then a proportion of it automatically passes to the structure or "improvement" erected thereon.

An example will perhaps make this clearer. Assume that a piece of land is worth £10,000, and that it is taxed on an annual value comparable with its worth, say £400 yearly (i.e., 4% on £10,000). If the taxes hitherto borne by the land are, in consequence of the introduction of the Single Tax principle suddenly increased 5s. in the £ and the prospects within sight which hitherto warranted the holding of the land are no greater than before the introduction of the new tax, then the annual value of the land is reduced by the amount of that tax, i.e,. 5s. in the £ on £400, or £100, and the capital value is reduced by £2,500. The land cannot be said to increase in value because of the structure erected or to be erected thereon, because another equally elegible site adjoins it, and can be had for the same reduced value, viz., £10,000 minus £2,500, or £7,500. If, therefore, the assessment is not reduced from £400 to £300 per annum, the £100 automatically becomes a tax upon "improvements."

The second of the two articles in the Canadian Municipal Journal is from the pen of Mr. J. Hamilton Ferns (Chairman, Board of Assessors, Montreal), who is described as an economist of high standing, and as having had a large experience as an assessor.

After referring to the failure of the single tax in Houston (Texas), California, Vancouver, British Columbia, Alberta, and Saskatcheawn, Mr. Ferns sums up as fellows: —"The single tax theory, when put into practice, has failed to abolish or in any way check land speculation; it has not lowered rents; it has not been instrumental in giving permanent employment to all willing to work; it has not increased wages; it has not lowered the cost of living. nor has it abolished poverty. Like many other plausible theories, "it has been weighed in the balance and found wanting."—Financial Circular of the Institute of Municipal Treasurer, England.

HUGE SUMS FOR HIGHWAYS IN U. S.

The Government of the United States has apportioned $267,750,000 to the different states on a fifty-fifty basis, for the purpose of building main highways throughout the country. This huge amount, with its augmentations will reach the sum of $633,000,000 available for good roads this year. The United States are determined not to be left behind by Canada in the building of highways.