

**TAXATION OF LAND VALUES:
BEING CHAPTER VII OF THE FIFTH
BIENNIAL REPORT OF THE
MINNESOTA TAX COMMISSION.
PP. 84 - 122**

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CHAPTER VII

THE TAXATION OF LAND VALUES

Recently at a meeting of the All-Minnesota Development Association, an organization having for its purpose the promotion of the development of the natural resources of the state and the betterment of the social and economic conditions of the people, a resolution was adopted favoring a reduction of tax burdens on personal property, and on buildings and improvements on land. The discussion that preceded the adoption of the resolution brought out the fact that a number of those in attendance at the meeting were single taxers, while others favored a modified form of the Henry George theory of taxation. The latter would use land as the base of all taxes, to be supplemented, perhaps, by specific taxes on business and income.

The Exemption of Personal Property

Minnesota is one of the few states that still persists in taxing all forms of personal property. Many of the other progressive states of the Union have abolished such taxes in whole or in part and have substituted other more equitable revenue measures. Scarcely any other nation outside of the United States, and certainly no advanced nation, now imposes a tax that corresponds to our personal property tax. We pride ourselves on the progressive spirit of the American people, and yet many of the older countries of Europe, as well as some of the Australian colonies and Canadian provinces, have far outstripped us in tax reform. They have shown a much greater readiness than we have to change their tax systems when change seemed desirable, and to adopt new methods better suited to the changing social and economic conditions of modern civilization. Perhaps we are less progressive than we think we are, especially in matters of tax reform. Nevertheless the future is not without hope, for a growing public interest in matters of general taxation is discernible everywhere, and particularly in our own state. An intelligent public interest is a prerequisite of tax reform.

The movement for the total or partial exemption of personal property from taxation is not a new one in this state. For many years past a considerable number of our people, though by no means a majority, have favored either the modification or total abolition of personal property taxes. This sentiment is due in part to the feeling that our attempts to tax property of this character have not been successful from the viewpoint of either completeness or equality. This is particularly true of the many elusive forms of so-called intangible personalty, the volume and value of which has grown so rapidly with us during the past quarter of a century. Then, too, there has been a growing feeling that the tools and implements of production—farm tools and stock used in agricultural pursuits, and the tools, implements and machinery of the manufacturer—should not be taxed; that if personal property taxes are to be imposed at all they should be imposed on production rather than on the instruments of production.

Still stronger opposition is developing to the tax on household goods. Such property produces no income; its value to others than the owner is a doubtful quantity. If homes are to be maintained, and homes are the backbone of a state, we must have chairs and tables and cook stoves and beds, yet in this state we tax these essential things of the home. More illogical still is the tax on the clothes we wear, not even the modest shirt and overalls of the workman being exempt. It is small wonder that there is a growing sentiment against such taxes.

The growing opposition to personal property taxes is reflected by the increasing number of bills introduced in each succeeding session of the legislature for repeal or modification of taxes on personalty. This is particularly true in so far as it relates to taxes on intangible personal property.

The original tax provision of the state constitution, adopted in 1857, required taxes to be equal and uniform on all classes of property, regardless of character or use. This restrictive provision was an effective bar to tax reform up to 1906, when an amendment was adopted changing the uniform rule on all classes of property to uniform on the same class of subjects. This amendment permitted the classification of property for purposes of taxation.

The first step in classification, following the adoption of the amendment, was taken in 1907, when a law was enacted providing for a low registration tax on mortgages in lieu of all other

taxes, followed by a specific tax on grain in 1909, and by the three-mill tax on money and credits in 1911.

A still more radical step in classification was taken in 1913 by the enactment of a law dividing property into four classes for purposes of taxation, and providing for the assessment of each of the different classes at varying percentages of true and full value. The law is fully discussed in another chapter of this report. It is sufficient here to say that while the classification was perhaps based on expediency rather than on sound economic reasoning, the law recognizes the logic of the advocates of the exemption of household goods by placing such property in the lowest class. It also makes some concession to the tools and implements of industry as compared with some other forms of property. By placing iron ore in the highest class some slight recognition is given to the "state heritage" theory, and also to the contention of not a few of our people that the mineral deposits of the state, being the gift of nature, should bear a heavier tax burden than the products of labor.

That the classification law could be improved is generally conceded; nevertheless, it is regarded as a step in advance by those who would exempt personal property from taxation. Until the exemption provision of the state constitution is enlarged it would not be possible to bring about complete exemption of such property. The power to classify, however, is sufficiently broad to permit of a low tax on certain classes of property that many of our people think should be entirely exempted. To this extent at least the law commends itself to those who would entirely eliminate all personal property taxes.

That the personal property tax will eventually be abolished in this state is altogether probable. Apart from the question of its economic soundness, it has other objectionable features. It is a difficult tax to equitably enforce, hence often unjust in application. In a measure it puts a penalty on honesty and a premium on dishonesty, especially when applied to certain forms of personal property. No state should persist in a tax that makes evasion and dishonesty profitable. Many of the most progressive states in the Union have already abandoned it in whole or in part. It has never been successfully administered in any state. In its present form it can never be successfully administered in this state.

The Exemption of Buildings and Improvements

The resolution first referred to also favors a reduction of tax burdens on buildings and improvements on land. The principle of entire exemption of such property from any form of taxation has numerous supporters in this state, although the resolution apparently only favors the placing of a lower tax on buildings than on the land itself. In a measure, total exemption of improvements is a modified form of the single tax theory, but quite distinct from it.

Briefly explained, the advocates of the single tax propose to abolish all taxes save those upon land values. They contend that the value that attaches to land because of the growth of population and the development of industry belongs to the people, and consequently should be taken for the use of the people. They hold that there are two distinct kinds of value, one the result of individual effort, which in equity belongs to the individual; the other, the result of the presence, needs, and activities of the whole community, and in justice ought to be devoted to the public use, because created by the public.

It is claimed that every community has an indefeasible original right to the land on which it exists, and to all the natural, unmodified values and advantages attached thereto; that every individual in the community has an equal right to the land, while all the individuals together have a joint right to the income which these natural advantages command. This income is known as land value or economic rent.

Land value, or economic rent, is defined as the largest annual amount voluntarily offered for the exclusive use of a given area of land in its natural state—without buildings, and undrained, unfenced, unfertilized, unplanted and unoccupied. It is proposed to socialize economic rents—to appropriate them to the public use—and from the proceeds thereof to defray all expenses of government, federal, state and local. The plan in its fullest sense contemplates the total elimination of import and internal revenue taxes, as well as property taxes, whether general or specific.

The Unearned Increment Tax

Another considerable school advocates appropriating to the public use a part of the future unearned increment of land. They oppose the taking of past increment as unjust to the present owner

because of vested rights. In effect, the single tax denies the validity of vested rights, while the principle of taxing future unearned increment recognizes the validity of such rights. The former would tax the economic value of the land in the form of an annual rent without regard to present ownership, while the latter would appropriate to the public use some part of the future increase in the capital value of land. In computing the future increase in the capital value of land, it is conceded that the added value arising from labor or improvements on land should not be regarded as unearned increment.

While the unearned increment tax has been quite widely discussed for more than a generation past, so far it has not been adopted in any section of the United States.

Increasing public expenditures in recent years, particularly in cities, have made necessary the devising of new sources of revenue, and the increment tax has been urged as a feasible and equitable method of meeting this growing demand on public purse. It is held that the rapid growth in land values in most American cities, due to increasing population, is a community growth, and that part of the increase should be used to meet growing public expenditures. Recently the committee on taxation of the city of New York reported in favor of an annual increment tax of one per cent upon the future increase of land values in that city as shown each succeeding year by comparison with the assessed value at the time the law was enacted.

It was contended by a majority of the committee that the increment tax was in effect equivalent to a supplementary income or ability tax and would rest upon those especially benefited by growth in values. It was further urged in justification of the tax that when a land owner secures an appreciable increase in the value of his land, either through the action of the government or through the general growth of the community, a part of his profit might equitably be diverted to the public use. So far, however, the recommendations of the committee as to an increment tax have not been enacted into law.

While the increment tax has not so far been adopted by any American community, the principle of the tax has been in use in several other countries for some years past. An Imperial increment tax was adopted in Germany in 1911, which in a large measure replaced local taxes. It has been in successful operation in

several hundred German cities for a number of years. In England the celebrated Lloyd-George budget of 1909 introduced an unearned increment tax which appropriates to the public use a fifth of all increases in land values greater than 10 per cent. The province of Alberta, Canada, adopted an increment tax in 1913, the details of which are described on another page. That it will eventually be adopted by some of the American commonwealths is not at all improbable.

Partial Exemption of Buildings

Another proposal for special land taxation involves a heavier direct tax on land than on buildings and improvements on land. The principle of total or partial exemption from taxation of buildings and improvements on land has been quite widely discussed and has many advocates in this state. While total exemption has a considerable following, partial exemption is more generally urged, because less radical and less liable to seriously affect our local revenue system under existing tax limitations. Moreover, partial exemption could be brought about through legislative enactment, while total exemption would require a constitutional amendment.

The arguments used by the advocates of total or partial exemption of buildings and improvements are of much the same tenor as those used by single taxers. In addition, however, it is contended that land is the fundamental base of an equitable tax system. It has a fixed situs and can neither be moved nor concealed. Its value can be measured with reasonable accuracy, and therefore can be taxed with greater certainty and equality than other forms of property. Moreover, it is claimed, the taxing of buildings discourages improvements, because it imposes a fine in the form of a tax on the man who improves his property, thus penalizing thrift and industry. It is further contended that if all taxes were levied on the land it would compel the owner of idle land to improve it, or to sell it to others who would improve it, thus eliminating the speculator who does nothing to create values in a community, but, under our present system, profits by the energy and enterprise of others.

Partial Exemption in the United States

The movement in the United States for the exemption of improvements has so far made but little progress. The only direct