

FINANCE BILL PROVISIONS

Levy and Assessment of the Land Value Tax

The Finance Bill was issued on the 13th May. The Second Reading took place in the House of Commons on 19th May, the Conservative motion to reject it being defeated by 270 votes to 230.

The Sections relating to the imposition, assessment and collection of Land Value Taxation are numbered 7 to 30, which with two Schedules occupy altogether 31 pages. Space does not permit of our printing the whole text. In what follows, the main provisions are described and reference is made in brackets to the sections dealing with them.

The Land Value Tax

A tax of one penny in the pound of the (capital) land value of every land unit, subject to certain exemptions, is to be charged [S. 7] for the financial year 1933-34 and for each subsequent financial year.

The earliest date on which the tax will begin to be collected [S. 14 (4)] is the 1st July, 1934, that being the tax which is chargeable for the financial year 1933-34. The tax chargeable for any financial year is collected in the next financial year.

The tax will be paid by the "owner," as this term [S. 26] is defined. A distinction is made between (a) land subject to a lease granted for a term exceeding 50 years which has commenced, and (b) any other land. In respect of (a) the leaseholder is regarded as the "owner"; in respect of (b) the "owner" is the owner of the fee simple.

The amount of any tax payable shall be recoverable [S. 14 (7)] as a debt due to His Majesty from the person on whom it is assessed and shall be a charge on the land in respect of which it is charged.

Recovery from Lessors

Where the leaseholder (of leases exceeding 50 years) pays the tax he is entitled [S. 15] to recover from his lessor a sum equal to one-twelfth of the annual rent payable by him, or the whole amount of the tax, whichever is less—and this by deduction from rent. The same rule applies to that lessor if he pays rent to a superior landlord; and so, back to the owner of the freehold.

If the land has been leased for an original term of 50 years or less, or is not leased, the "owner," as defined, pays the whole tax; there is no proportional contribution.

It appears that, since the section speaks of the recovery of tax from the person who is the "reversioner" (in England and Wales) no share of the tax is to be recoverable from the receiver of a chief rent, this being a fixed annual payment or quit rent generally continuing for 999 years. The reason for this difference in treatment will doubtless be explained in the debates.

Feuar and Superior

In Scotland much land is feued—that is, leased at a perpetual rent called the "feu duty," which is paid by the "feuar" to the "superior." It is provided [S. 30 (m and n)], that the receivers of feu duties, the superiors, are to contribute their proportionate share of the land value tax according to the rule that applies in the case of leases of over 50 years in England and Wales.

There is another kind of payment in Scotland in respect of the use of land, called the "ground annual." This is not mentioned in the Bill and the presumption

is that the receivers of ground annuals are not regarded as receivers of land values and therefore are not to be called on for any share of the land value tax. The debates should clear up this point also.

Existing Contracts

The tax has to be paid and borne [S. 15 (3) and S. 21], as the Bill provides, notwithstanding any agreement made before the passing of the Act.

Valuation Every Five Years

The values are to be ascertained by the Commissioners of Inland Revenue.

The first valuation of the land is to be made as on the 1st August, 1931 [S. 27] and that date is called the valuation date. Succeeding valuations are to be made every fifth year, so that the 1st August, 1936, 1941, and so on respectively, will be the valuation date on each of these succeeding occasions.

The Unit of Valuation

Each piece of land in separate occupation, called the "land unit," is to be valued [S. 8 (1) and (3)], excepting the land that is exempted from taxation.

Where flats in different occupation or ownership stand above one another on one piece of land, the site of the building is to be treated as a land unit. The tax payable by the owners in this case will be apportioned [S. 14 (1) (a)] among them in the proportion which the annual rateable values of the several flats, as assessed for local purposes, bear to one another.

The valuation of any piece of land is to be made on the basis [S. 8 (4)] that all the circumstances affecting all other land were the actual circumstances at the valuation date.

The owners may submit their own estimate of the values [S. 8 (5)] and the Commissioners shall take that estimate into consideration.

Cost of the Valuation

The Financial Memorandum to the Bill says:—

"The first valuation to be made for purposes of the Tax on Land Value will be a work of magnitude, the cost of which cannot be estimated with precision, but the amount required to provide additions to professional and clerical staff, office accommodation, equipment and supplies, and remuneration payable to the panel of referees (the appeal body) is expected to be not less than £1,000,000, and may approach £1,500,000. The expenditure would be spread over the present and the two following financial years. Any estimate of the cost of additional staff which might be required in the administrative and legal Departments of the Inland Revenue in connection with the work of valuation could only at this stage be so conjectural as to be almost valueless. Such cost will, however, be relatively small. The further valuations at intervals of five years will, it is estimated, cost about £165,000 on each occasion."

Definition of Land Value

This most important part of the Bill, providing the basis on which the land value tax will be levied, needs to be studied so closely that we give the text in full, adding the meanings [S. 27] of certain expressions. S. 8 (1) defines the land value of the land unit to be

The amount which the fee simple might have been expected to realize upon a sale in the open market on the valuation date, upon the assumptions that at that date:—

(a) there were not upon or in the unit:—

(i) any buildings, erections, or works,* except roads* and except works executed for agricultural* purposes, and except any buildings, erections and works in so far as they are necessary for the reclamation of land or the protection thereof from flooding or for maintaining the stability of the unit;

(ii) anything growing on the unit except grass, and except any heather, gorse, sedge, or other natural growth, and, in the case of agricultural land, except also hedges and trees:

(b) The sale price had been computed without taking into account:—

(i) the value of any minerals* as such, or the value of any mineral wayleaves;

(ii) the felling value of any trees;

(iii) the value of any shooting or fishing rights;

(iv) the value of any tillages or manure, or of any improvements specified in paragraphs (20) to (27) of the First Schedule to the Agricultural Holdings Act, 1923, being tillages, manure or improvements for which any sum would by law or custom be payable to an outgoing tenant:

(c) The sale, save as hereinbefore in this section expressly provided, included all property and rights which, if the unit had been conveyed at the valuation date, would, by virtue of subsection (1) of section 62 of the Law of Property Act, 1925, have been deemed to be included in the conveyance, there being assumed to be no contrary intention expressed in the conveyance:

(d) All rights to tithe, tithe rentcharge, or other payment in lieu of tithe, issuing out of or charged upon the unit, were extinguished:

(e) The unit was free from any incumbrance except any of those mentioned in the First Schedule to this Act [*viz.*, a list of incumbrances as would be binding on a purchaser in the event of the sale assumed as above].

*MEANINGS OF SOME EXPRESSIONS

Roads does not include any road which the occupier alone is entitled to use.

Works does not include works of excavation or filling executed for the purpose of bringing the configuration of the soil to its actual formation; but, save as aforesaid, means all works executed as improvements (not being buildings or erections) and includes fixtures, ditches, fence walls and other fences.

Minerals includes all minerals and substances in or under land of a kind ordinarily worked for removal by underground or surface working.

Agricultural Land means land and buildings which being used for agricultural purposes are relieved from local taxation under the Agricultural Rates Acts and the Local Government Act, 1929. It includes arable, meadow and pasture ground; woodlands; market and allotment gardens; nursery grounds and orchards; and land exceeding one-quarter of an acre used for poultry farming or cottage gardens. The present Finance Bill includes also farm-houses in the definition of agricultural land.

It is well to observe that agricultural land does *not* include land occupied together with a house as a park, gardens (other than those just named), pleasure grounds, or land used for purposes of sport, recreation, or as a race-course.

Two Values for Agricultural Land

The special treatment of agricultural land was forecast in last year's Land Valuation Bill. The discrimination then proposed is embodied in the Finance Bill, which instructs the Commissioners of Inland Revenue to ascertain both the "land value" as defined above (*which*

in the case of agricultural land does not exclude "works executed" nor hedges and trees) and [S. 8 (2)] what is called the "cultivation value."

The "Cultivation Value"

This is to be determined—as an unimproved value—as the assumed basis of

what the land value as ascertained under the foregoing provisions would have been if there had been a restriction imposed by law as the user of the agricultural land, permanently prohibiting its use for any purpose other than agricultural of the class or classes for which it was actually used.

In ascertaining "cultivation value" the valuers are also to assume that agricultural buildings are in their place, the land being otherwise unimproved. All buildings are excluded from "land value," but some of them are supposed not to be absent when the "cultivation value" is ascertained. The reasons for this need stating.

This duplicate valuation—not to speak of the purpose in view—is an awkward business. It will certainly prolong the work of valuation, and the opportunities for obstruction by objections and appeals can better be imagined than described. The "cultivation value" is not exactly a new conception. It was introduced in Mr Winston Churchill's Finance Act, 1925, so as to decrease the death duties on agricultural land; but there, it was an assumed value of the land in its existing condition including all improvements. Here, it is an assumed value that excludes improvements other than farm buildings.

Exemption of Agricultural Land

We come to the regrettable features of the Bill in the exemption of agricultural land, minerals and sporting rights; and the relief of small proprietors from the tax on land values. There is also the exemption of *all* land belonging to public utility corporations (railways, etc.)—not merely, as proposed in last year's Land Valuation Bill, the land they own that is used for the purposes of their statutory undertaking and cannot be alienated for other purposes.

The land value tax in the case of agricultural land will be charged [S. 14 (2)] on the difference between the "land value" and the "cultivation value." Accordingly, where there is no excess of the former over the latter, agricultural land will be exempt from tax; and the Commissioners in terms of S. 8 (6) are not to value the land if they are satisfied it is so exempt. The decision that such and such land has no value above its value for purely agricultural purposes, resulting in complete exclusion from the valuation register, is an arbitrary decision; it is unfortunately outside the scope of public review or control.

Other Exemptions

The Small Proprietors.—It is provided [S. 20 (3)] that

If any person by whom the tax for any year is borne proves to the satisfaction of the Commissioners that the aggregate amount of the tax for that year borne by him in respect of all the land units in respect of which the tax is so borne does not exceed ten shillings, he shall be entitled to relief from the tax for that year.

The relief applies only to that amount of the tax which is ultimately borne by the person—not to any tax he is entitled to recover from any other person. This exemption does not mean that every site of £120 land value or less is exempted. Persons who own two or more sites, or who contribute as superior landlords any share of the tax, are relieved only if they can prove

that their total tax on all pieces of land taken together does not in any year exceed 10s.

Minerals and Sporting Rights.—By virtue of the definition of "land value" [S. 8 (1)], minerals and fishing and shooting rights are exempt from valuation, and therefore also from taxation. As to minerals, the Chancellor of the Exchequer stated on 4th May that the valuation problem was practically insuperable, and in any case it was the intention of the Government to nationalize minerals. In the Finance Bill debate on 19th May, the Financial Secretary to the Treasury (Mr Pethick-Lawrence) said sporting rights were exempted because of difficulties of including them in individual items of occupation.

Land Publicly Owned or belonging to Railways, etc.—The exemption applies to all land which is not subject to lease granted for a term exceeding 50 years which has commenced.

The land in question [S. 19] is that owned by the King in right of the Crown; by any Government Department, local authority or drainage authority; by the National Trust; by railway, canal, harbour, dock, gas, electricity, water or other public undertaking, operating by authority of Act of Parliament; also land used for public religious worship, charitable hospitals, and churchyards or burial grounds.

To repeat—the last-named exemptions apply *only* to land that was not leased for an original term of more than 50 years. In the case of land that is leased for more than 50 years, where the public authority (railway, etc.) is either lessor or leaseholder and the other party is a private person, the latter will pay his due proportion of the tax [S. 20] under the rules that apply for payment and recovery, as among the parties to all leases of more than 50 years. The portion of the tax due from or paid by the public authority (railway, etc.) in such cases will be remitted or refunded by the Treasury.

As to railway companies, generally speaking they are debarred by their special Acts from owning land not connected with their statutory undertaking. But there are exceptions, for instance, the Metropolitan Railway, which owns a considerable building estate. Other cases are such properties as railway hotels and the renting of shops or office premises built within railway stations or alongside the approaches thereto; or the renting of built-in arches where the railway is carried overground. It is admitted that the valuation of railway land used for statutory purposes presents difficulties, and there is a case for exempting such land because the railways are controlled by Parliament as to rates and fares. There may be difficulty also in deciding just where the use of land for railway purposes stops, and at what point any land owned by a railway could be alienated for ordinary commercial purposes without interfering with a statutory use. The extreme alternatives are either to value all the land of the railways or to value none of it. The problem has been resolved in the Bill in the latter sense. Although this saves a lot of trouble, the anomaly remains that the railways are left in a privileged position wherever they hold land to rent or for sale.

The Valuation Register

A land values register is to be kept relating to every land unit [S. 9]—but this, interpreted, can only mean a register that does not include the land exempt from valuation. On the occasion of the first valuation, owners are to receive copies of the entries in the register relating to their land units. Thereupon, after the valuation has been substantially completed (*i.e.*, after objections have been dealt with, on appeal, if necessary) the register for each area is to be deposited at the offices of the local authority.

On the occasion of the succeeding valuations, once every five years, the register is to be deposited *before* the hearing of objections, and notice of the deposit is to be given in public newspapers. Owners will not receive copies of entries but will require to examine for themselves the register for information upon the valuation made.

Open to Inspection by Owners

The land values register, being lodged at the offices of the local authority, is to be open to inspection or the taking of extracts [S. 12 (3)], but this freedom is available only to owners of land in the area; not to "any person," as was proposed in last year's Land Valuation Bill. One may ask, why this restricted publicity, withholding that which is essential to a fair and an agreed valuation—the approval of public opinion and the right of the ordinary citizen to see that the public interest has not been neglected? The value of the land is a public value.

Objections and Appeals

In connection with the procedure for objection and appeal and access to the land values register, the "owner" includes [S. 15 (5)] any person who contributes to the land value tax by deduction from rent.

If the owner objects to the values as ascertained by the Commissioners and he and they fail to agree, the objection may be taken [S. 11] before one of a panel of referees appointed by the Reference Committees that were constituted under the Finance (1909-10) Act, 1910.

These Reference Committees are, for England and Wales, the Lord Chief Justice, the Master of the Rolls and the President of the Surveyors' Institution; and for Scotland, the Lord President of the Court of Session, the Lord Justice Clerk and the Chairman of the Scottish Committee of the Surveyors' Institution.

No provision is made for allowing the public to attend these hearings; nor does it appear (at the first valuation) that the valuer and the appellant can test the case in dispute by reference to the value at which adjoining or neighbouring land is assessed.

Other Matters

Particulars of Sales, etc.—When the fee simple of any land is transferred on sale, or the lease of land is granted for a term exceeding seven or more years, or any such lease is sold, the Commissioners are to obtain the particulars of the transaction [S. 23].

Power to obtain Information.—The Commissioners may, if they think fit, require the owner or occupier of any land [S. 22] to supply information as to facts relating to the land, *e.g.*, ownership, tenure, area, rent payable, by whom or to whom the rent is paid, when the estate or interest in the land was acquired, the price paid, etc.

Mortgaged Land.—If the mortgagee is in possession, he pays the tax [S. 14 (1) (b)] or the due proportion thereof, and the tax so paid becomes a first charge on the mortgaged estate [S. 16] with interest at the rate of 5 per cent per annum.

Under-payment or Over-payment of Tax.—The tax is payable [S. 14 (7) and (8)] notwithstanding any pending objection or appeal. When the disputed valuation of the unit is finally settled, the amount of the tax will be adjusted either by repayment to the taxpayer or by recovery from the taxpayer as the case may be.

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Copies of the Finance Bill may be obtained, price 9d. each, by post 1s., from our Offices, or may be purchased direct from H.M. Stationery Office, at Adastral House, Kingsway, W.C.2; 120, George Street, Edinburgh; York Street, Manchester; 1, St. Andrew's Crescent, Cardiff; or through any bookseller.