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**LAND VALUATION IN DENMARK
(1903 - 1945)**

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HISTORY

In 1903 a sweeping amendment of the Danish taxation system took place. The old land taxes for State and local purposes, which had been assessed on an antiquated basis were changed into a property tax assessed upon the selling value of real estate, i.e. of land including buildings and improvements. At the same time, a substantial portion of the taxation for State purposes formerly resting on fixed property was replaced by income tax and by the annually levied tax on the capital value of individual possessions - the "fortune" or wealth tax.

Since 1903 there has been a general periodic valuation of real estate. The reform, so called, of 1903 at once caused protest against taxation levied on the value of buildings and improvements which was particularly felt in the case of properties with but a small extent of land attached to them. Attempts were made to lighten the taxation on built-upon or cultivated smaller holdings by giving various tax-free abatements, but in spite of repeated modification of such exemptions no satisfying results were attained.

The unhappy experience of this change in taxation gave support to the opinion that the property tax should be wholly or partly replaced by tax on the value of land alone, in sympathy with the ideas held by the advocates of the Henry George policy.

TRIAL VALUATIONS

The first practical step in the direction of Land Value Taxation was through trial valuations in 1911 and 1912, the object of which was partly the possibility of a separate assessment of the land and partly to gain experience in regard to the principles of valuation and the practical methods which should be followed in making the valuation.

A few local areas were selected as typical and there a valuation was showing the land value of each piece of land apart from improvements. The work was done along carefully planned lines under the direction of the Central Valuation

Board (the land valuation department) and with the co-operation of experts on the subject, who helped in planning and carrying out the work.

The next step was the enactment in 1915 of a valuation covering the whole country whereby the land value of every piece of land was ascertained; but this valuation was made again as an experiment and was not put to any practical use as a basis for taxation. It was a preliminary experiment; nevertheless it was put to use for other purposes, including, for example, the war measure in 1917 when farms were assessed for the compulsory corn delivery. In 1920 a fresh valuation was enacted which was intended to be used eventually as a basis for taxation.

A NATIONAL LAND VALUE TAX

After this new valuation was completed, and results had been compiled an Act was passed in 1922 which gave effect to a small national land value tax the rate of which was no more than 1½ per thousand of the capital value. This Act of 1922 made periodic valuation of land necessary, and firmly established that institution in Danish law and practice.

At the same time, with the experience that had been gained, the organization of the Valuation administration was altered in certain details, particularly to ensure greater co-ordination and better proportion in the assessment over the whole country.

LOCAL RATING OF LAND VALUES

There followed the land valuation of 1924 and the experience of the small national tax on land values (for State purposes) led to the Act of 1926 by which considerable part of local taxation was levied on land values.

Since then valuations have been made as in 1927, 1932 and 1936, valuations now being made every fifth year. The valuation which should have taken place in 1941 had to be postponed on account of the German occupation, and was only undertaken in 1945.

In 1933 the greater part of county taxation, which is levied only on real estate (there being no local income tax for county purposes) was transferred to the value of land apart from improvements. At the same time the locally adoptive and optional tax on increases in land value was replaced by a generally leviable State tax of more than double the amount on increases in land value, with the assessment of 1932 as the datum line. The rate of this tax is 2 per cent per annum of the increase that has taken place at the next and succeeding valuations - although with considerable tax-free deductions. The yield of this special taxation is divided equally between the Treasury and the local authority; and it now amounts to 5½ million crowns per annum.

INCREASE IN THE STATE LAND VALUE TAX, 1937

In 1937 certain local expenditures which can rightly be regarded as expenses of a national character, were transferred to an equalization fund for the whole nation; and a large part of the expenses from this fund was met by an addition of 4½ per mille to the State land value tax. The reform denoted some increase of taxation on real estate, and especially of land value taxation, and a reduction of the local income tax. The reform also contributed materially to a more even distribution of local taxation over the local areas.

THE PRESENT POSITION

The aggregate land value, as ascertained at the latest valuation, amounts to 6,800 million crowns. Excluding the properties belonging to the public, which are exempt, the aggregate taxable land value is about 6,200 million crowns.

The annual yield of the taxes (national and local) on land values is about 3 million crowns, so that the rate of the land value taxation averages 2½ %, of the land value of the properties that are subject to tax.

The aggregate value of buildings and improvements is about 13,000 million crowns, properties belonging to the public not included.

The taxation of buildings and improvements is three-quarters (in the counties three-fifths) of the rate levied on land values; but so much of the value of buildings and improvements is tax free that the tax on buildings and improvements yields only about 89 million crowns, and thus corresponds to a about 7 per mille of the aggregate value.

Moreover, proposals for a further extension of the land value legislation, including the transference of taxation on buildings and improvements to taxation on land values, have been referred, for consideration, to the Government Tax Commission which is now sitting.

It will be seen from this that the importance of the land valuation in its use for revenue purposes has been increased step by step. Moreover, in other connections, the land valuation, along with the valuation of land and buildings taken together, has been gradually and in increasing degree accepted as a standard for public purposes and for contracts between individuals. As a result the demand for good valuation has also become keener, but to the same extent the conditions for satisfying this demand have been improved. It is not too much to say that the first requirement of a good valuation is that it has economic importance: that both owners and those who take part in making the valuation are associated in the work and with sufficient interest. But it also goes without saying that these greater demands for efficiency, if they are to be satisfied, require that the valuation authorities be equipped with the information and the technical aids that are essential for doing the work of valuation well.

THE BASIS OF VALUATION

The system and procedure adopted in ascertaining the land value were carefully worked out in connection with the first trial valuations made in 1911 and 1912, and have not since been al-

tered to any considerable extent. The assessment is the capital value of the land. In Denmark land is generally owned by the occupiers. Less than 10 per cent. of the agricultural land is tenanted, the owners being either the Church or private land owners. Since tenancy is exceptional, it was not thought advisable to assess the annual value. Annual value will, perhaps, be found the better basis in countries where the landlord and the tenant system is prevalent and possibly also when we approach the point at which the greater part of economic rent is taken in taxation for public purposes.

The capital value is defined as the selling value. It is therefore not the capitalization of the full economic rent; only that part of the land value is assessed which is left in the hands of landowners because it is not taken in taxation for public purposes. In other words, the capital value of what is left in private hands is the same thing as the market value of the land.

But it is to be observed that in determining the value, no account is taken of the new tax on increased values (the land is valued as if this charge did not exist). This tax, therefore, which in the nature of the case may fall very unequally on pieces of land which otherwise have the same value, will not cause a corresponding inequality in the valuations, a thing that would have been very unfortunate in the making of the valuation. While account is taken of all public burdens and covenants (with the one exception of the tax on increased values) account is taken of private burdens or covenants which affect a property only to the effect that these obligations arise in connection with an adjoining property where the corresponding benefit is taken into consideration in fixing the assessment.

TIME LIMIT FOR CERTAIN IMPROVEMENTS

The assessment includes with the land value the improvements that merge in the land, such as the draining, levelling, irrigation work, etc. (in the case of agricultural land) and expenditure for streets, sewers, etc. (in the case of urban land); but the owner in every case has a right to claim a tax-free deduction of a

sum representing the cost of the improvements provided that the improvements have been made within 30 years preceding the date of the valuation and provided that the cost has not been recouped in the increased return due to the improvements.

In the cases where the expenditure cannot be regarded as having been reimbursed by the increased return in the course of the 30 years, provision was made in the new law for the tax on increased values to give opportunity, on application to the Finance Ministry, for allowing an extension of the exemption period.

This allowance of the tax-free deduction may never, of course, exceed the added value given to the land by the improvements at the time of valuation. If the owner does not claim the allowance on the date of the first valuation after the improvement is made, he has no legal right to claim the allowance at the of a later valuation. The valuation authorities, however, have the right to grant him allowance in any case if they find special reason for it.

URBAN, AGRICULTURAL AND OTHER LAND

Further, the law provides special rules with regard to (1) Agricultural land (2) Woodland and (3) Other Lands and Tenements. But it is to be observed that agricultural land includes only land the best use of which is for agricultural purposes. Where land has a higher value than an agricultural value, it is not valued as agricultural land even though for the time being it is used for agriculture. There is a corresponding provision with regard to woodland except where a legal covenant obtains that the woods must be preserved.

It is provided that all agricultural land is assessed per hectare on its selling value on the assumption that it belongs to a medium-sized farm. This provision is made to avoid assessing the land of small holdings at the enhanced price which generally has to be paid when land is bought for the purpose of a small holding. The price of such land in the case of small holdings estab-

lished with the support of the State has generally been higher per acre for land without any buildings than the market price of land (with buildings upon it), when ordinary farms are sold in the open market. These enhanced prices for small holdings ought not to be taken as the basis for land value taxation, even if they do to some extent correspond to the actual market price of land with buildings thereon which is used for or destined for small holdings.

Otherwise the rules, taken all in all, direct that special features of the respective property to which the land belongs shall not affect the assessment of the value per unit of area - such as, the size of the land, the shape of its various lots of fields and their situation with respect to one another (their distance apart, whether close or far) or the position of the buildings on the land.

SPECIAL PROVISIONS FOR AGRICULTURAL LAND

Further, the law provides that the land shall be assessed as if being in an average state of cultivation. This provision implies that the actual state of cultivation does not determine the assessment. The valuer is required to concern himself only with the natural qualities of the land and its situation. Under these rules also, the question of giving tax-free abatement for improvements in cultivation does not arise, since such improvement does not increase the assessment. But this allowance is valid where land has been reclaimed or where the character of the land for agricultural use has been altered; e.g., where meadow or bog (by draining) has been converted into arable land, or where developments at the owner's cost have taken place outside the property which increases its land value. In all cases where the assessment is increased, because of undertakings at the owner's cost, a claim can be made in respect of the value of cultivation improvements made on the property so affected.

The rule that agricultural land is to be assessed as if being in an average state of cultivation does not mean that the annual

work and outlay incurred on the land in ordinary farming is considered a part of the land value. For purposes of valuation the land is assessed in the condition it would be in immediately after the year's crop has been removed and before the preparations for the next crop has begun. Even so, a considerable part of the value is due to cultivation which may be removed or exhausted by farming or otherwise impaired. Nevertheless, this part of the value attaching to the land is generally the work of generations; in most cases it is a sort of by-product in ordinary farming which has not been taken into consideration by the farmer himself and it cannot and ought not to be separated from the value of the bare land. Possibly some people would prefer to treat such values in the same way as improvements that merge in the land. In a country where a great part of the land is not under proper cultivation something might be said for this point of view; but in an old country like Denmark with its land well cultivated such a method of dealing with the matter would in special cases bring about results that could not be defended. It would mean that a man who neglected his land would have his taxation reduced; and it would also happen, although not so often, that a man who cultivated his land better than most other farmers, would have to bear the heaviest taxation. Clearly that would be unjust in both cases. In my opinion, it is better for taxation purposes and more convenient from the valuation point of view, to assess all agricultural land as if it were in a normal state of cultivation.

Finally, it is to be noted that the law provides that where the land belonging to the property shows material differences, part by part, in respect of quality or advantage of situation, each such part is to be assessed as a single part. The land of each must be specified. It is not sufficient to give the land value of the property as a whole.

THE VALUING OF WOODLANDS

Woodland which is dedicated by law to be used as woodland or which can be most profitably used for timber-growing is assessed at the value it has for woodland in good condition of for-

estry. The Act gives no distinct answer to question whether or to what extent growing timber should be considered as part of the land value, a question that has raised much discussion. It has been decided that the value of land is taken to be 60 % of the total value of a forest in a normal state of forest cultivation, i.e., a forest in such a state that normal growth balances normal felling. (Sixty per cent is also the average ratio of land value to total value on a medium-sized farm.) This is a compromise and I am not defending it. I am of the opinion that in the case of forests cultivated for timber, the growing timber necessary to keep up the profit-earning capacity of the forest should be considered land value, but that a deduction for improvements under the rules of the Act should be allowed covering the expenditure (including interest) which has been necessary to bring the forest to its profit-earning capacity. this would mean that in the case of natural forests the selling value of the forest with growing timber would be taxed as land value, but in the case of new forest plantations the greater part of the value of the growing timber would be exempt from taxation.

OTHER LAND - URBAN, ETC.

With regard to any property other than agricultural and woodland, the value is to be appraised at the amount at which it may be estimated to sell according to the current prices ruling for the class of property in question, without buildings or improvements, if sold for the purpose for which it is best adapted, all conditions being taken into consideration, in respect to which regard must be had to the shape and size of the property as well as to the possibility of its being sub-divided or being aggregated with adjoining properties. Here we have a contrast with the assessment of agricultural land where the shape or size of the property in question has no influence upon the assessment, which is based on the value per unit of area.

This difference is the result of the experiences gained from the first trial valuations where it was noticed that the assessment especially of building land which should determine the value on

the assumption of rational plotting for sub-division (although with the same street plan) might result in the fixing of values which correspond neither to the possibilities of the use of the land nor to the sum which might be obtained, in view of the actual conditions of building development in the neighbourhood.

Mining land and water power, which in Denmark is of very slight importance, is valued at its selling-value whether it is worked or not.

HOW THE WORK IS ORGANIZED AND ADMINISTERED

The fundamental principle of the organization is democracy. In every town or parish, or district of a town or a parish, two valuers are elected by the town council or parish council by proportional representation. The valuers are elected for a period of six years. These valuers, guided by a chairman who is nominated by the Government and has under his control a number (generally 10 to 15) of local valuation districts, form a committee which, within their district, has to make the valuations and the valuation maps. When the valuation is completed, the valuation roll is open for public inspection and the owners as well as the parish or town council have a right to make appeals against the valuation. Appeals are decided by a county valuation board consisting of all the chairmen of the local valuation committees in the county. The owners have the right to appeal against the assessment of the property of others as well as of their own.

The county board not only has to consider appeals but in general has to revise and correct the assessments of the local valuation committees.

The valuation work is administered by the Directorate of Assessments, assisted and controlled by the Board of Assessments. It is sub-divided into a department for personal taxation (e.g., income tax) and a department for the valuation of real estate. The Board of Assessments is partly nominated by the Government and partly elected by Parliament on a system of proportional representation. The Directorate of Assessments has no

power to make any assessment or to alter an assessment made by a County Board, but the Board of Assessments can, on the recommendation of the Directorate of Assessments, alter the assessments made by the County Boards or require the County Boards to make the necessary alterations. All decisions and alterations made by the County Boards or by the Board of Assessments can be appealed against before the Taxation Court whose decisions are final in the matter of valuation.

In the Metropolis and the largest provincial boroughs there is no county valuation board, but the local boards are in direct touch with the Directorate of Assessments.

This democratic organization, with its great number of local valuation committees (and with a thorough knowledge of their small districts) guided by county boards and the Directorate of Assessments, assures that there is the closest possible contact between the citizens and the valuation authorities, which is of extraordinary importance for the work of valuation and makes it possible to finish a valuation for the whole country in the course of one year. It is done by men who have all their private business and who undertake the valuation work in an honorary capacity receiving only a very small fee. There are about 4,000 valuers at work and the total cost of a general valuation before the war was not more than £100,000 altogether, or about three to four shillings per valuation. The cost of making the 1945 valuation was equivalent to about £250,000 or seven shillings per valuation. This does not include the administrative expenses of the Central Valuation Board.

PROCEDURE AND METHODS

A general valuation takes place every fifth year. In the interval between the general valuations, special valuation is made when land is sub-divided, or when buildings are erected or when there are structural alterations of more than 2,000 crowns value, or in any case if the owner wishes. And a revaluation of the land alone is made of such lands the value of which may be consid-

ered to have increased by the laying out of railways, streets, roads, open spaces, etc., or for other special reasons.

To assist in the work of valuation, every valuation board is supplied with a record of all the properties on the cadastre in the district with particulars of the area of each, and a map of the district which shows the position of each cadastral number; and, in the case of agricultural land, the classification of its natural quality according to the old estimation (the "Bonitering" or assessment for the "Hartkorn" tax) of 1844, which continues to be of service to the valuers in many parts of the country.

PARTICULARS SUPPLIED

Before the general valuation begins, valuers are also supplied with the particulars of all the transactions in land within their districts during the past year, purchasers being required to make return of these particulars to the Central Valuation Board.

On the occasion of every valuation the owner has a return to fill up which notifies him of the cadastral number of the property and the area as it is stated in the records of the valuation board, and the owner is requested to give all necessary information with regard to his property, such as area, description and area of buildings, amount of annual rent, purchase money paid for the property or part of it within the last 20 years, the mortgages on it and the like. An opportunity is also given to the owner to state what in his opinion is the selling value of his property and of his land apart from improvements and he is also reminded of his right to claim allowance for permanent improvements.

If the information given by the owner is not sufficient, the valuers have an unlimited right to require information from official authorities and from banks, loan societies, insurance companies and the like.

THE LAND REGISTRY

In this connection it should be stated that every sub-division and every aggregation of land has to be officially approved and registered, and every transfer of property, mortgage right or

other private claim that is secured upon fixed property must, in order to enjoy the full protection of the law, be entered in the property register which is accessible to the public; and the creation of this right or claim is published in the Government Gazette.

Uncertainty with regard to the boundaries of a property, the conditions attaching to it, or the private rights or claims upon it is very rare: and such information in regard to any property can easily be obtained.

ASSESSMENTS IN COUNTRY AND TOWN

Before any single property is assessed the general level of valuations in the district is fixed. In the rural districts this is usually done by the county valuation board by carefully valuing a few properties in each parish to ensure a uniform valuation throughout the county. The local valuation committee, guided by its chairman, who is himself a member of the county valuation board, then has to assess every single property by the standard of these representative valuations set by the county valuation board.

For the towns the valuation starts with street valuations: the value per square metre of a lot of 30 metres deep is assessed in every street or part a street; but in the greater part of Copenhagen 20 metres is taken as the normal depth. In this work the valuers refer for guidance to sales of vacant land (if any), sales of land with buildings (having due regard to existing building values), and especially to normal rents in different streets. When building values are equal, then the difference in selling value of properties or differences in normal rent received will give a more or less accurate expression to a difference in land value. When these street values have been established the value of every single parcel of land is assessed. By this work the valuers usually make use of a depth-table showing the relative value per square metre for different depths. This depth table is very similar to that used in several American cities, though it is based on our own experience. The value of corner-lots will generally be com-

puted in accordance with some general rule established beforehand on the basis of experience.

As a matter of course, the valuations that one arrives at by using as an aid such valuation tables should always be confirmed by looking at the valuation as a whole, whereby attention can be paid to the special conditions that might attach to any individual property.

LAND VALUE MAPS

In the towns, assessed "street prices" are entered on the valuation map of the district; and in the country districts there is entered on the district valuation map the assessment per hectare for every separately assessed piece of land. By this means the Valuation Authorities can most easily get a general survey of the assessments and also the facility easily to judge that the valuations are correct and in proper harmony. By entering also the particulars of any sale of vacant land, especially of building ground, it is possible to see how or whether the valuations are in agreement with the selling prices. By these uses, the land valuation maps are therefore of considerable assistance in the valuation work in addition to the help that they afford for recognizing the position of each individual property. It is not too much to say that a good land value map is an essential aid in making a valuation.

A copy of the land value maps is deposited for public inspection together with the valuation roll so that the owners also have the same easy facility of seeing whether the assessment of their land is in keeping with the assessment of other properties. Moreover the land value maps for the Metropolis and its suburban areas and for all the provincial towns are printed and made available to the public.

RESULTS OF THE VALUATION

If the valuation gives occasion for many complaints on the part of the owners this shows that there has been something wrong with the work. On the other hand one cannot conclude

that the valuation is satisfactory if only few bring forward complaints against the assessment, because a reason for this might quite well be that the valuation as a whole is too low.

At the 1936 valuation the number of contested assessments, of which, however, the greater part had reference to the valuation of the improvements, was less than 2% of all the assessments, and only about one-tenth of appeals that came before the county valuation boards had to be carried through to the Central Board of Assessments.

If now it is asked how the valuations agree with the market price, which should be the standard, there is some difficulty in making the comparison so far as the land value assessment is concerned, because most properties and certainly the most valuable sites in the towns are built upon and as a rule are only sold together with the buildings.

It is easier to give an answer so far as the valuation of land including improvements is concerned. As there is a very close connection between land value and the total value at any rate of agricultural properties where the land value makes up such a large part of the total value, the following particulars are given to show how the selling price of properties in 1937 compared with the assessments. These are sales that took place after the general valuation and referred to altogether 17,000 built-upon properties that were sold. The average comparison is given for these properties, grouped as follows:--

	Selling price higher than the valuation, %
<i>Town Properties</i>	
Metropolis	4.2
Provincial boroughs	1.5
Townships	2.3
Other country districts	7.0
<i>Agricultural Properties</i>	
Larger properties	7.4
Medium-sized properties	13.0

Smaller properties

19.8

In respect of the agricultural properties, the relatively great difference between the selling price and the valuation of the land with improvements, even for medium-sized properties, discloses some lack of uniformity in the assessments in the different county valuation districts. The difference is not so considerable as far as the land value assessment is concerned which therefore on the average may be taken to lie nearer the market value than does the valuation of land with improvements.

In the case of sites the selling price and the valuation can be directly compared in the case of sites which before being sold have been valued independently; such building lands are generally situated on the outskirts of any building developments. Comparing the land value as assessed at the valuation of 1936 and the purchase price of 2,000 building sites that were sold during 1937, the result was as follows:--

	Purchase price higher than last valuation. %
Metropolis	8.2
Suburb of metropolis	12.9
Provincial town	17.3
Townships	20.0
Other country districts	32.3

The assessment of the land value of built-upon properties cannot, in the nature of the case, be directly tested by sales.

In this regard it should be observed that during the years immediately before the valuation of 1936 there was a considerable increase in the prices of land on the outskirts of the towns where building development was going ahead. This increase (and it continued for a time also after the valuation) was not fully taken into account in the valuation. A part of the difference between the selling prices and the valuation is due to minor improvements made, such as hedges and fruit trees, and also to the fact that building sites are often paid for by small instalments. Taken as a whole, the last valuation is a considerable improvement upon the previous one both in respect of greater equality in

the assessments all over the country and of closer agreement with the market values of land.

Complete details are not yet available (December, 1945) as to the relation between the 1945 assessment figures and the market values of land; but it should be said that the sharp increase in prices which took place during the war have not been fully taken into account in the valuation, especially not with regard to small dwellings, the prices of which have been much influenced by the housing shortage.