IPTI Xtracts
Property Tax and Assessment News from Around the World

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German State to Recover Society's Land Value

The bigger the benefit, the bigger the battle to win it, yet a German state did take the first step toward an economy for all.

A Tax You Can Live With?

Most of us do not hold taxes in high regard, those levies being one of the two certain things in life along with death. Our widespread antipathy toward taxes is rational, given how unfairly they are levied and how unfairly the revenue is spent. Only the rich get a handsome return for what they pay the taxman and the lobbyist, while everyone else is left holding the bag and with a large political, economic, and environmental mess to clean up.

While the critics of taxation are correct in general, in particular they are wrong. Amazingly, there is one tax that actually does clean up politics, economies, and the environment. It empowers more people to participate in governance, it spurs greater output with nigh zero inflation, and it motivates owners to use land efficiently, which, astoundingly, grows its tax base. Readers of this site will have already understood that it's the tax on the annual rental value of locations.

Many people feel it's a tax on their god-given land, on the ground beneath their beloved home, and falling squarely on the middle class while exempting the rich. Those who believe in their gut that taxing land is bad are right about the first two and wrong about the third objection. The tax is actually very progressive, since the rich own the most valuable sites both residential and downtown commercial, which in cities popular with the rich are hundreds of times more pricey than the land beneath suburban homes. They also own the best mineral sites—oil fields.

Yet reason rarely prevails among our human species while emotion is our relentless engine. Hence the land tax is a rarity. And even when legislated, often it is doomed, soon repealed. So, what happened in Germany recently stands out and bears watching.

Breakthrough In Baden-Wurttemburg

Late last year, the parliament of the German state ("land") of Baden-Wurttemburg passed legislation to introduce a state-wide land value tax. Baden-Wurttemburg, the "land" where Stuttgart and Mercedes-Benz is located, has a population of 11 million. If the reform is not repealed before taking effect, B-W will become the largest part of Europe to utilize a ground tax—or "grundsteuer" in Deutsch.

The green/black coalition of environmentalists and Christian Democrats—who rule that "land" together—adopted the tax. Setting it at a very low rate and aiming it at metro land, made it more politically palatable, but less economically effective. The tax (if still around) won't start up until 2025 (plenty of time for opponents to regroup). It took the ruling coalition seven years to put this tax on the books.

Late last century, former Soviet states bordering the Baltic Sea—Estonia, Latvia, and Lithuania—instituted this tax. But B-W is the first major area in Europe to do so for nearly 100 years. It's twice the size in area and population of Denmark, which has had an on-and-off affair with this beneficial tax. What happens is, the tax works, people prosper, they bid up the price for land, speculators see that bounty and want it for themselves, and having more power than the general populace who're not enamored with taxes in the first place, and with taxes on their coveted turf in particular, the speculators get the tax overturned.

Germany's Land Taxes

As do most nations, Germany has another type of land tax already on the books. It's the federal German government's third largest source of income, raising €14bn per year. It's the most important tax for municipalities. Germany also levies a Real Estate Transfer Tax (RETT). The various states charge between 3.5% and 6.5% of the purchase price. The greater portion of that value usually comes from the location.

Whichever land tax, landlords don't pay it, not really. Landlords use the rent from tenants to pay the tax. In 2016 it averaged €390 a year on 36 million parcels across the country.

The new law comes complete with loopholes. It lets owners pay less tax if they offer tenants affordable housing. Local governments may lower the rate to avoid raising more revenue than presently.

The federal government passed this new enabling legislation in 2019 just weeks before the deadline. Now they must reassess land values. Eastern Germany bases assessments on 1935 prices. Other parts of the country use the prices of 1964.

Bavaria, Saxony, and other states won't soon use the new tax and thus not reap its benefits. Such states have many owners of large tracts who dislike paying land value to their community. They tend to vote conservative every chance they get.

Rejection follows logically from calling the obligation a tax. Fortunately, no tax is needed. Other fiscal mechanisms could work as well if not better: a deed fee, a lease of public land—which all re(g)al estate once was—or land dues. Any of them would recover value generated by the presence of society, for the privilege of excluding everyone else from one's land.

There is a way to make the tax, fee, or dues on land permanent. It's the same way that makes the Alaskan tax on oil permanent, or the Aspen CO RETT permanent. That is, don't hand over the tax money to politicians to do with it what they want (no better than they do with other public revenue), but disburse the monies to residents as a monthly or annual dividend. Then, not only will residents not mind paying, but they will also welcome rapidly rising location values, since the higher they go, the bigger the share for residents. Works for me.

Germany's Land Tax History

That's looking forward. Looking backward, a century ago Germany recovered much site value for public benefit, due to colonization. The German navy governed the German colony of Kiau Tchau in China. Before developing the port, there was very little to tax other than land. As the levy on landowners spurred rapid and thorough development, enabling everyone to prosper, the mightily impressed German admirals took the tax reform back to the fatherland.

This led to the constitution of the Deutscher Bund in 1888. The first German city to adopt the tax was Frankfurt-on-Main. By the end of 1910, the number of towns taxing land value reached 652. The Reich itself (the German federal government) passed its own land value tax in 1911, albeit at a very low rate, simultaneously axing other taxes (most of which are counterproductive).

In the 1940s and 1950s, the allied occupying powers insisted on a stiff progressive income tax rate of 90%. At that height, of course, an income tax rate stifles efforts to earn income by producing goods or services. It hobbled the people's attempts at post-war reconstruction.

While the Reich followed allied economic orders, the German government also opened loopholes in the high income tax. High income earners who invested in designated enterprises—housing, real estate development, shipping, etc.—were exempted from the income tax. Not taxing progress and improvements is the de-taxing half of the revenue reform of re-taxing locations.

Later, when East Germany and West Germany re-united, Germany faced the daunting task of re-developing five eastern states that for decades had suffered massive dis-investment. The Reich turned to the same strategy used for reconstruction after World War II. I.e., offer tax-exemption for investment in development coupled with some sort of (low rate) land tax. BTW, the benefits from the complexity of the German tax code keep the European Union from harmonizing Germany's income tax with the rest of Europe until eastern Germany has caught up to western Germany. Maybe east Germans should always lag behind just a little bit.

A Partitioning That Lets You Really Live

Presently, in terms of contributing to the 800 billion marks that the German government collects (100.000 DM per capita), the wage tax ranks first, generating more than 251 billion annually. The value added tax ranks second, generating more than 237 billion annually. The property tax ranks ninth, the income tax fourteenth. The land tax yields only some 1.7%.

Private households bear the burden of the three highest-yield taxes: the wage tax, the value added tax, and the gasoline tax which yields more than 68 billion annually. Nothing new there. Less powerful individuals always pay more. At least until they insist upon economic justice.

If Germany were to raise that rate, it could abolish the other, counterproductive taxes. If Germany were to pay out the raised revenue as a dividend to citizens, it could abolish most subsidies and bureaucratic spending. Then Germans could shrink their workweek, expand their leisure, and lead the rest of the world not only in working energetically but also in playing relaxedly. May the German state of Baden-Wurttemburg lead the way.

Berlin's property tax reform proceeding according to schedule

The German capital has been working hard on implementing the 2019 ruling of the Federal Constitutional Court regarding the country's property tax

Germany's federal and state governments have long struggled to reform their property taxes after a ruling of the Federal Constitutional Court in November 2019. While The federal government proposed a new calculation model from 2025 that takes into account the value of the real estate in addition to the area, some states such as Bavaria, Baden-Württemberg or Hesse want to go their own way and use different methods.

Berlin, however, has decided to implement the model proposed by the federal government and work is proceeding as planned, according to officials.

Making sure that change comes without disruption

Preparations for the reform of the property tax in Berlin are progressing, according to Finance Senator Matthias Kollatz (SPD). "Since 2019 we have been working on the implementation of the federal law. In order for the required data to be submitted digitally and processed further from 2022, the existing programs must be comprehensively revised and expanded, despite the corona-related restrictions, we continued all work in Berlin. We are right on schedule," explained Kollatz to the DPA.

In Berlin, around 800,000 plots of land have to be re-evaluated and extensive databases digitized for the reform. This process should be largely completed by mid-2024. For the second half of 2021, Kollatz plans to provide information to all people, companies and associations involved in the reform process.

Property tax is the municipalities' most important source of income. Berlin earns around 820 million euros annually. The Senator for Finance underlined once again that the reform should not flush either more or less money into the state coffers - politicians call this income-neutral. He has long been pointing out that for many Berlin tenants in normal residential areas there should be no additional burdens.