

## Chapter 8 Conclusions

In the introduction, I have mentioned the importance of the equilibrium between the needs of the community that imposes compulsory payments on the taxpayers versus the sacredness of the private property in this era.

A tax imposed on the profit of land and buildings i.e. income tax, capital gains tax, V.A.T., as well as purchase tax and selling tax create a gap between what a seller receives and what a buyer pays. The tax rates affect the equilibrium point.<sup>1</sup>

Economists and philosophers<sup>2</sup> argue about this issue of the equilibrium point since the industrial revolution up to today. There is no consensus whether the landowner should carry the main burden of the tax in order to exempt the labour from heavy taxation, or should this burden be shared between the landowner the entrepreneur and the working class.

One should be aware that up until the 19<sup>th</sup> century, the term "landowner" meant a

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<sup>1</sup> Most countries raise resources through a variety of taxes, including direct taxes on wage and property income, contributions to trust funds, and a variety of indirect taxes on goods, either at the final point of sale or on the inputs used to make them. A smaller amount of revenue is raised from taxes on property, on capital gains, and on capital transfers, particularly at death. Most countries have a separate corporate income tax. Government budget, Problems of public expenditure control, Encyclopaedia Britannica, Britannica.com editors, <http://www.britannica.com/eb/article?eu=109165&tocid=26337#26337.toc>

<sup>2</sup> Adam Smith, Thomas Malthus, David Ricardo, Karl Marx, Frederick Engels, Alfred Marshall, Joseph Schumpeter and others.

landlord of a vast rural land, i.e. king, duke, or count, as a result of the feudal economic system. The peasants under this regime were vassals with no property and no civil rights. Books, essays and article writers in the 19<sup>th</sup> century faced the creation of a new class - the "city vassal", which means an industrial working class with no social rights such as the vassal class under the feudal regime. No wonder economists and philosophers tried to protect this unprotected class. Hence, the socialism grew from the sorrow and grief of the working classes in the 19<sup>th</sup> century.

We live in a capitalistic era. It is common to describe the earliest stages of capitalism as mercantilism, the word denoting the central importance of the merchant overseas traders who rose to prominence in 17<sup>th</sup> and 18<sup>th</sup> century England, Germany, and the Low Countries.<sup>3</sup>

In the 20<sup>th</sup> century especially after the Second World War the term landowner meant a person or a corporation that owns real estate mostly located in cities. The concept that the landowner should carry the main burden of the tax in order to exempt the labour from heavy taxation weakened since the working classes achieved labour organizations, social rights, and equal civil rights in the state as all other classes.<sup>4</sup>

The perpetual immigration of the population from the country to cities created the mega cities in the 20<sup>th</sup> century. The decline of the status of the landlord occurred during the last two centuries, because the rural land lost its unique political and economic value of feeding the population and ceased being the main source of wealth. The land in the cities gained its high value for industry, merchant,

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<sup>3</sup> "Mercantilism" - economic theory and practice common in Europe from the 16th to the 18th century that promoted governmental regulation of a nation's economy for the purpose of augmenting state power at the expense of rival national powers. Encyclopaedia Britannica, Britannica.com editors, <http://www.britannica.com/eb/article?eu=53378&tocid=0>

<sup>4</sup> The debate around the relative roles of markets versus bureaucrats took on renewed life with the end of the Cold War. The public policy debate shifted from focusing on the public sector to emphasizing markets and their ability to innovate, decentralize, use incentives and meet needs more effectively. Yet there remains in this public policy debate a stunning silence about the absence of property rights for the rural poor. Bryant, Coralie. Property rights for the rural poor: The challenge of landlessness, in Magazine: Journal of International Affairs, Fall 1998. [http://www.euforic.org/rondzend/nov98\\_2.htm](http://www.euforic.org/rondzend/nov98_2.htm)

entertainment, and dwelling.

There is no known civilization that has not taxed its people, and there is a relationship between tax rates and revenues.<sup>5</sup> Nowadays, the taxation system and the land taxation in particular, has a main impact on the wealth of the nation and the welfare of the people. The increasing value of the land in the cities shifted the taxation from the rural land to land and buildings in the city. The modern

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<sup>5</sup> In deciding how to raise enough money to finance its expenditure program, a government faces a large number of different considerations. First, the tax system is complex, containing many different taxes, each often having a complex structure. Perhaps the major consideration is the effects on behavior that particular tax rates will cause.

Income tax has a graduated structure whereby no tax is paid on the first segment of income and then each subsequent segment is taxed at a higher rate than the previous one. In the United Kingdom, most taxpayers pay tax at a uniform marginal rate, while other countries have more steeply rising rate schedules. Higher marginal tax rates make work less rewarding, which tends to reduce work effort. High marginal rates, however, may have less impact in some areas than others, a factor that needs to be considered when deciding who should bear the tax burden. Such considerations presumably have influenced the trend in many countries to tax the wealthiest groups.

Whatever the structure of the tax, the general proposition that increasing tax rates will reduce work effort usually holds; and this, in turn, tends to reduce tax revenue again. A vigorous debate has persisted over the "Laffer curve," which postulates that at some level of tax the disincentive effects will be so great as to mean that an increase in tax rates actually reduces revenue. This idea has been influential in leading governments to attempt to curtail the share of public expenditure in national income. The administration of Ronald W. Reagan in the United States cut taxes in 1981 in the hope of increasing revenue by stimulating the economy, and, while this succeeded to some extent, expenditures grew even more, causing a substantial increase in the budget deficit. Tax rates affect the pattern and level of consumption. Excise duties, value-added tax, and sales taxes all change the relative prices of goods and the attractiveness of consumption relative to saving. Once again, an increase in tax rates will generate responses that tend to cause a reduction in revenue, and, again, governments must balance the strength of these effects when deciding on which rates to increase. Other considerations, such as the protection of domestic industries, also affect such decisions.

Tax rates also affect commercial decisions, and the balance between individual and corporate taxes must reflect this. Accordingly, many countries have sought to attract new manufacturing industry with tax concessions. Finally, as rates rise, taxpayers seek more ways to avoid taxes. They employ tax advisers to find more tax-efficient routes, which, in particular, can involve a search for capital rather than income-yielding assets and the movement of activities overseas to less heavily taxed countries. "Mercantilism", *Encyclopaedia Britannica*, Britannica.com editors, <http://www.britannica.com/eb/article?eu=53378&tocid=0>

administrating techniques and creativity of the modern rulers invented various compulsory payments imposed directly and indirectly on the real estate owners and users.

This growing participation of the state and the local authorities in the private property of the landowners affects the equilibrium between the community and the taxpayers and creates a need for a sophisticated tax haven (tax shelters).

The legislators and the tax officers weave a dense net of taxation in order to capture most of the economic benefits of the landowners from their property. Hence, the landowners persist to discover loopholes in this dense net in order to create a legal tax-free profit.

There is another way to create a legal tax-free profit. Taxpayers create political and social lobbies in order to put pressure on the legislator. The most popular political party is the one that initiates tax-exempts and discounts that create a legal tax-free profit. It effects the sovereignty of the parliaments and puts a limit on the appetite of the governments for higher taxes.

Learning the phenomenon of taxation of the various profits of real estate together with the modern attitudes to the capitalistic economy in democratic regimes is the key to the modern trends of owning property, selling and buying, renting and leasing, administrating and marketing.