VI: PROPERTY TAXES IN AUSTRALIA

As noted above, taxes levied against property include Estate, Gift, Probate and Succession duties, as well as taxes and rates assessed as a percentage of the value of land or man-made property.

Probate, Etcetera

Estate, Gift, Probate and Succession duties are being phased out in Australia, but they are no great loss.

These measures were designed to limit the size of family holdings, and to help redistribute land when its previous owner passed into eternity. In this way, they were supposed to help optimize land use by increasing the number of landowners.

However, Probate and similar duties were not marvellously effective as a redistribution instrument. In fact, they often had the opposite effect.

Companies do not Die

Large landholdings are often held in the name of companies. Companies do not die, so probate and succession duties rarely became payable on their holdings.

However, probate was payable on many smaller individual holdings. Therefore, when the owners of small holdings died, their beneficiaries often had to sell property to pay Probate.

The purchaser was often a company. Consequently, Probate duties could actually add to the size of certain holdings and decrease the number of landowners in the community - an effect opposite to the one they were supposed to produce.

Land Taxes and Rates

Similar considerations do not apply to taxes and rates assessed as a percentage of the value of sites. These measures **can** provide a most effective stimulus to the optimal use of land.

A Continuing Holding Charge

Land taxes and rates place a continuing holding charge on the ownership of land.

If the charge were high enough, then it would discourage people from holding land for which they had little or no immediate use. It would also foster optimal land use - because landowners who paid a substantial holding charge would either use their land fully or dispose of some of it.

However, today's land taxes and rates are rarely adequate in this respect.

Holding charges on landownership are unpopular with politicians and with the rich and powerful - for reasons given on page 42. Therefore, high levels of land taxes and rates are rare.

Furthermore, wherever land taxes and rates are used, they tend to be whittled away by exemptions, so their benefits are minimized.

We can demonstrate this whittling away, by looking at land tax legislation in Victoria.

Land Tax Act

In Victoria:

> "The Land Tax Act 1958 provides for an annual tax on the unimproved value of all land owned by a taxpayer at 31 December in the year

preceding the year of assessment. Unimproved value is the estimated selling price of the land if offered for sale on reasonable terms and conditions and assuming that improvements, if any, had not been made.

"Land tax is assessed at the rate of 0.357 per cent on the total unimproved value up to $38,000 with a graduated increase in the rate to reach 3 per cent where the unimproved value exceeds $880,000. Land tax is not charged where the total unimproved value of all non-exempt land of a taxpayer does not exceed $9,000. However, where only one parcel of land is owned and it is used exclusively by the owner as his principal residence, no land tax is charged unless the unimproved value exceeds $33,000. Where the value exceeds $33,000 the tax otherwise payable is reduced by $117.81...

"Exemption from tax is provided for charities, municipalities, public statutory bodies, servicemen's associations, friendly societies, and trade unions, unless the land is leased or occupied for business purposes. Certain concessions are available under the **Decentralized Industry Incentive Payments Act 1972** and to taxpayers in necessitous circumstances. Land used for primary purposes is generally exempt,..."[10]

More and More Exemptions!

The above situation applied during 1979. In that year:

"A new form of residential exemption was introduced into the Land Tax Act...This exemption figure of $33,000 has now been increased to $40,000 and became effective 1 January 1980."[11]

Still Not Satisfied!

It seems that even $40,000 did not satisfy some people, because in Victoria's 1981 budget the residential exemption was increased to $100,000. One can only wonder why.

Who Benefits From the Exemption?

Few poor people would own a house block worth $33,000, $40,000 or more. Therefore, we may ask:

> "How many poor, needy or even average persons benefitted when the residential exemption was raised from $33,000 to $40,000?

and:

> "To what sort of person does the 1981 increase in the exemption (i.e., from $40,000 to $100,000) apply?

The answers are obvious, and further comment is superfluous.

Out of Date Valuations

Australia once had a reasonably substantial level of land tax, but - over the years - exemptions have steadily increased.

In addition, many of the valuations on which land tax is based are several years old - so they are well below current market values.

As a result, the Victorian government collected only $69.5 million in land tax in 1978-79. This was a mere 5 percent of the State's total taxation revenue of $1,384 million[12].

Other States

The position in other States is not noticeably different. Only $258 million was collected in land tax for the whole of Australia in 1978-79. This is less than 1% of the $32,213 million the States and the Commonwealth collected as revenue in that year[13].

MUNICIPAL RATES

The final property tax to consider is the municipal rate.

Site Value or Net Annual Value

In Australia, local governments obtain revenue by levying rates against the value of property. These rates may be assessed:

(a) as a percentage of site value,

(b) as a percentage of what is called the Net Annual Value of each property, or:

(c) as a shandy, based partly on site value and partly on Net Annual Value.

Net Annual Value (N.A.V.)

The Net Annual Value (N.A.V.) of a property is an estimate of the annual rental value of the improved property - i.e., of the site plus whatever improvements are on it.

Therefore, rates levied against N.A.V. fall partly on land and partly on buildings, fences and other man-made property.

A Deterrent to Improvement

Rates levied against N.A.V. increase in proportion to the value of a property owner's improvements. They act as a deterrent to property improvement. They reward (with lower rates) owners whose properties are run-down or unimproved.

Site Value Rating Preferred

In this way, rates assessed against N.A.V. differ from rates assessed as a percentage of site value.

Rates assessed against site values do not increase in proportion to the value of an owner's improvements. They fall just as heavily on a vacant site as on an equivalent site that is covered with a new or well maintained building. They therefore act as a stimulus to site development, and discourage people from holding land for which they have no immediate use.

Site Value Rating = Land Tax

Rates assessed as a percentage of site value are equivalent to a tax on land. Both of these measures place a continuing holding charge upon the ownership of land. In my opinion they are the ideal source for government revenue.

$1,218 million in 1978-79

Local governments collected $1,218 million in rates in 1978-79[14] - so municipal rates represent the major property tax in Australia at the present time.

Published figures do not always distinguish between rates levied against site value and those levied against N.A.V. We cannot, therefore, determine the precise land tax component in that $1,218 million.

Nevertheless, the figure shows that land tax -

is widely accepted as a source for government revenue. Therefore, to increase land tax from its present low levels to much higher ones is neither a revolutionary step nor any radical departure from established practices.

INCREASE TAXES ON LAND, REDUCE OTHER TAXES

At present, land taxes and rates on land provide only a small proportion of total government revenue in Australia.

In most instances, these taxes and rates are not very high. They do not fully optimize land use or prevent speculation and investment in land.

This situation could be remedied if governments took the following steps (not necessarily in this order or all at once):

1: Have valuations made of all sites that are not currently valued for land tax or rating purposes.

2: Arrange for the valuations to be checked and adjusted as necessary - with revaluations at yearly intervals if possible.

3: Arrange for valuations to be displayed in municipal offices - on maps or charts. This would foster accuracy and fairness in valuations, by allowing landholders to check the value assigned to their holding against the values assigned to adjacent properties.

4: Transfer rates now assessed against N.A.V. onto site values. (This applies not only to municipal rates, but also to water or sewerage rates assessed against N.A.V.)

5: Remove most of the exemptions now applying to the State Land Tax - so that land tax becomes payable on all sites. (If this were done in Victoria, for instance, then sites now exempt would be taxed at 0.357 cents in the dollar. This would provide the government with a substantial quantity of revenue, much of which would come from the owners of vacant or underused sites).

6: Gradually increase council rates, while decreasing the amounts paid to municipalities from central governments.

7: Increase the basic level of land tax progressively until it becomes uniform throughout each State. (3% in Victoria.)

8: Reduce other taxes to balance the increasing amounts of revenue obtained through rates and taxes on land.

Widespread Benefits

These relatively simple measures would bring many under-used or idle sites onto the real estate market. The price of sites would fall, and incoming home owners and primary or secondary producers would outlay less money as land price. This would increase the monies available for buildings, machinery and other purposes and thereby:

1: provide more employment in the building and toolmaking industries,

2: reduce production costs in new or expanding industries and allow them to compete more effectively in markets here and overseas, and:

3: promote prosperity by increasing the amount of money available for the purchase of goods and services.

Reduced Interest Rates

A substantial reduction in land prices would also reduce both the size of new mortgages and the demand for loan funds - thereby allowing interest rates to fall. This would take a lot of financial pressure away from home buyers. It would also reduce the amount of interest paid by industry - thereby cutting production costs in new or expanding industries and allowing at least some prices to fall.

A Task for State and Local Governments

Any State or local government could stimulate employment and boost the economy in its vicinity by making minor changes to its taxation system. All State and local governments are duty bound to consider this proposal - if they are to fulfil a primary function of government by promoting the common good.

OBJECTIONS TO LAND TAX

The following objections are regularly raised against land tax, or used to justify exemptions from it.

1: Landowners may be pensioners or others who do not receive substantial income. Land tax might impose a heavy burden on such people and/or force them to move from a home site they have occupied for years.

2: Any increase in land tax will reduce the selling price of land - thereby reducing the capital assets of persons who now own land. Because of this, landowners may lose money if land taxes are increased - and the thought of losing money fills anyone with dismay!

More Apparent Than Real

These disadvantages are more apparent than real.

For instance, provision already exists for land tax concessions for "taxpayers in necessitous circumstances" (see page 32). This provision could take care of any pensioner who was genuinely embarrassed by the tax.

All the same, such embarrassment would be less frequent than opponents of land tax claim - because land tax should allow pensions to rise.

The community now supports its pensioners, plus a veritable army of unemployed persons. An increase in land tax would boost the economy and decrease unemployment. In this way it would both increase revenue and decrease the number of poor persons in the community. Pensions could then rise - to cancel any real difficulty any particular pensioner might face.

Gains and Losses

Similar considerations apply to the second objection, and one is reminded of the saying: "What we lose on the swings we gain on the roundabouts".

An increase in land tax would reduce the current "capital" of existing landowners. It would also reduce the price of any site they or their families might require in the future. In this way, gains would balance or outweigh losses for most citizens.

A Loss, on Paper, for People With Extensive Holdings?

Admittedly, people with extensive holdings could lose more than they gained.

The market value of their holdings would fall, and they could end up selling land for less than they paid for it. However, few of these people would be seriously embarrassed by the loss. In most cases, wealth invested in land is over and above the investor's own immediate requirements. Consequently, an investor's standard of living rarely falls when the value of his investment declines. He may lose money - on paper - but he rarely suffers hardship because of it.

Subdivisions and Land Developers

A third objection arises from developers who are currently building roads, sewers and drains in new subdivisions. Land tax could add to the costs of such developers. It would also prevent them recouping the tax by adding to the selling price of the blocks.

Land vendors, subdividers and developers cannot pass land tax onto prospective purchasers, unless they all agree to do the same.

In practice, any such agreement would be most unlikely - because each vendor is under his or her own separate and differing pressures to effect a sale.

Net Price = Sale Price Minus Tax Paid

When land is taxed, the net price obtained for any site is its sale price minus any tax paid while the land is held idle and awaiting a buyer.

With the high levels of land tax suggested in this book, the deduction would mount rapidly. It would soon erode any price increase that might be obtained by withholding land from sale or by rejecting low bids in the hope of higher ones later.

Because of this, high levels of land tax would bring idle sites onto the market very quickly, and prevent vendors from passing the tax onto purchasers. Any vendor who tried to do this would be undercut by others who sought merely to rid themselves of the holding charge by selling as soon as possible.

In this way land tax differs from other taxes. Taxes such as sales tax or income tax can be added to individual prices - because these taxes do not mount while services are withheld or goods remain unsold.

A Temporary Suspension

Land tax payments cannot easily be passed on to prospective purchasers, but they could be suspended while blocks were being prepared for sale. Therefore, any real problem for developers could be solved through a temporary suspension of land tax payments - with the suspension being lifted as each block became ready for sale.

Alternatively, regulations could be relaxed to allow the sale of undeveloped or partly developed sites. After all, this was done in years gone by, when roads, drains and sewers were added as blocks became occupied. Land tax - by preventing a sprawling form of development - would keep the cost of that time-honoured process to a minimum.

POWERFUL OPPONENTS OF LAND TAX

All the foregoing raises the following questions:

> "If land tax is so beneficial, then why is it not used more widely"?
>
> "If the case for land tax is so strong, then why does it not commend itself generally"?

"Why, in the modern history of taxation, do we hear so little about taxes on land"?

The answer to these questions was hinted at on page 31. Land tax is not neglected because it poses problems for pensioners. Instead, land taxes are low because land tax is unpopular with politicians, and with the rich and powerful. These are the people who could introduce effective land value taxation, but they are also the ones whose profits, influence and power would fall because of it.

Politicians

Land tax is unpopular with many politicians because it would halt the speculation that now provides a profitable sideline for them.

Politicians are in the "box seat" where land speculation is concerned. They receive advance notice of impending major developments, and what more is needed in order to make a profit through speculation in land?

Few politicians would kill a goose that lays golden eggs for them. This, surely, explains why land taxes remain low while many other taxes are increased.

Rich Persons

The same applies to rich people who - in general - own the largest and most valuable sites. These people possess considerable political influence, but - for rather obvious reasons - they do not ordinarily ask the government to tax land. Land tax would hit them in the pocket (where it would hurt!). It is all too easy to find fault with a measure that has that effect.

A Job for the Unions

For these reasons, effective land taxes will only be introduced at the instigation of the trade unions, or other mass popular movement.

Today, the trade union movement is probably the only one in the country strong enough to overcome the resistance of politicians and of the rich and powerful. Its members - along with small businessmen, primary producers and workers generally - have much to gain from land tax. This book has been written to provide such people with information, and with a point of view, they are unlikely to get anywhere else.

It has also been written to help anyone who is dimly aware of the importance of land to the economy, but who has not previously focussed the picture clearly, or had it explained in simple terms.

Some who are in this position may be unable to obtain land. They could feel cheated because of it. This book explains the reason for their predicament and provides a remedy for it.

Others may own land and enjoy a reasonable standard of living - without realizing that their good fortune is due, at least in part, to their status as landowners. If such persons wish to share their good fortune, then this book explains the how and why.

Still others may have opposed land tax - because it has activated their hip pocket reflex. If such persons can recognize the widespread benefits of land tax, then they may over-ride their hip pocket reflex and become supporters or advocates of land tax instead.