G-Day Gloom as the Stealth Tax Looms

TONY O'BRIEN reports from Adelaide

IF I WERE to sneak into the Australian Liberal (Conservative) Party's inner sanctum, I'm sure I would see, in a hallowed, candlelit corner, a magnificent shrine to the Venerable William Pitt (1759-1806), patron saint of hidden taxes. On a plinth of the finest South Australian marble – long reigned over by a gold-framed portrait of the queen of Australia – he sits in all his bronze glory. On his blessed knee a marble tablet, on which is inscribed in gilded letters the famous speech to his fellow lords of all the lands of England, Ireland, Wales and Scotland.

> My Lords and Gentlemen: A direct tax of seven percent would be a dangerous experiment and one likely to incite revolt. But there is a method whereby you can tax the last rag from the back and the last bite from the mouth without causing a murmur against high taxes, and that is to tax a large number of articles of daily use so indirectly that the people will pay without knowing it. Their grumblings will then be of hard times, but they will not know that the hard times are caused by taxation.

"Damn you Bill; may you burn long and slow", I mutter to myself as I creep out, on my way to the Australian Labor Party headquarters. "At least the party of the workers wouldn't resort to such cynical trickery to extract the hard-earned dollars from the people's pockets." You can guess the rest. As I dropped into the chapel on the first floor to say a prayer for prosperity, there it was, under a portrait of former Labor Emperor and VAT disciple Paul Keating; an identical statue. "Bring on the Levellers!", I sob.

All taxes, being the confiscation of wages, are inherently unjust. But indirect taxes – especially broad-based consumption taxes – are doubly so. They are both regressive and inescapable. The consumer, being at the very end of the production/distribution chain, must pay such taxes or starve. There are no legal alternatives. So for low-income earners, a much larger slice of their incomes is sucked into the insatiable maw of the taxman.

ON JULY 1 the Australian government ship of fools, captained by our charisma-challenged Prime Minister John Winston Howard, will lead us into the uncharted waters of the Goods and Services Tax (GST). The Labor Party, in opposition, has performed a half-hearted, 13th hour, charade of mutiny with a murmured, "but no, we won't alter course". Despite their philosophical differences, both major parties on this fateful voyage have long accepted Mr Pitt's dictum, that indirect tax, because of its comparative invisibility and its mechanism of drop by drop extraction, is the "least worse" way to fund government and achieve political survival.

Some of the enticements offered during the sales promotion of this 'new tax system' were, for the lords of our golden land:

- ☺ a reduction of the top income tax rate from 47% to 30%
- ☺ a halving of the Capital Gains Tax to 15%; and to mollify the battlers
- ☺ a promise that they will be "no worse off"!
- ☺ the futile promise of a concerted attack on tax-avoiders and the cash economy
- ☺ a slight and one-off increase in some welfare payments and pensions to the widows and mites.

Such logic-defying promises are designed to make the GST sound like heaven on a stick. How is it then that a majority of the population, including many erstwhile supporters whose toes have suddenly gone a deeper shade of blue, are increasingly apprehensive as G day looms? The answer is that their common sense

■ Prime Minister John Howard

has finally caught up with them. They realise, too late, that as usual, it will be those at the top – the very designers of the scheme after all – who will ultimately be the only beneficiaries.

The Howard Government's sacred promise to the battlers in the cities and the bush is "You will be no worse off!" Oh hallelujah! Several billion dollars have already been spent on promotion campaigns, statistical numerologists, bribes to the bush, international consultants, fiscal jugglers, business aid packages, pork barrels the size of woolly mammoths, sweets to the kiddies, etc. And the prize for the average battler? They will be "no worse off!"

As the new tax begins to bite and Government opinion polls turn sour, we can expect intensified efforts from the Government magicians as they frantically fumble for even more dollar-filled (and public-debt-generating) rabbits in the battered Treasury hat.

The GST rate has been set "in stone" at 10%. (Do I hear the sound of a multitude of VAT victims quietly weeping into their warm beer at that little joke?). Start-up costs alone for small businesses have been estimated at A$10 billion.* These costs will obviously be passed on in one way or another to the hapless consumer, averaging around A$1,500 per household.

So what joys can we expect from this wondrous new tax?

- ☹ More stress and family breakdowns as the newly conscripted army of unpaid tax collectors stumbles through the labyrinth of new regulations and procedures – we're talking thousands of pages here, and still counting
- ☹ An expected doubling of the cash economy, and consequent loss to tax revenue
- ☹ A boom in creative accounting, tax avoidance and minimisation schemes
- ☹ A surge in mortgage defaults by the battlers as land price and interest rates rise
- ☹ An expansion of the gap between rich and poor; more crime; more despair; more suicide; more drug taking; more inner city decline, and as a consequence of all that

And of course, the following chain reaction: As the wealthy and the wannabes take advantage of the 36% cut in the top income tax rate and the 50% reduction in capital gains tax, they will, as always, look to place the odd vault-full of their windfalls into speculative investment in the Stock market or in the land market, thus pushing up land prices across the country. This will feed directly into the cost of goods and services, all of which have a rent component. This will lead to increasing inability of low income earners to buy goods and services, leading to a decline in employment and an increased call on government and non government welfare agencies alike.

BEFORE this looming GST nightmare, the average Australian was already being slugged pretty hefty indirect taxes. Mr Pitt's advice was heeded long ago in this bountiful land. At present, the poorest 20% of the population pay a surprising 43% of their meagre incomes in indirect taxes and compliance costs, but less than 1% in income tax . Those in the top 20% pay 30% in indirect taxes, with an average 27% going to income tax. It's not difficult to see whom the big winners and losers will be from a reduction in income tax and increased indirect taxes.

Thanks Mr Pitt. You've left us all up the proverbial creek with an empty bankbook for a paddle. We're all waiting dumbly for salvation, not realising that it arrived over 100 years ago and is still waiting in the lobby for an official invitation. I refer to Henry George's "sovereign remedy". Simply abolish all taxes on production and exchange in favour of a levy on all titleholders equal to the annual unimproved value of their land and resources.

In Australia, such an annual levy or "site rent" – which would be equivalent to around 7% of current capitalised unimproved site values – on all land and resources, would yield around A$150 billion. This falls short by about A$30 billion on current tax revenue, but reductions in both administrative requirements and in demand for many government services would see this gap disappear very rapidly. This annual site rent would be a site occupier's total and only contribution to Government revenue. So what we already pay as site rent into private pockets would now go to the taxman. What we now pay in taxation – a minimum 44% of current incomes! – would go into our pockets, rich and poor alike, thus greatly increasing disposable incomes.

How does it stack up against the GST then? Well try this. It would:

- ✔ be impossible to avoid or minimise.
- ✔ be virtually free of compliance costs.
- ✔ be transparent to all citizens.
- ✔ be totally equitable in that it would draw a larger proportion of revenue from valuable land, and a smaller proportion from the average occupier.
- ✔ be immune to cyberspace manipulation.
- ✔ make the under-the-table cash economy redundant.
- ✔ rapidly pave the way to full employment
- ✔ expand the economy without depleting resources.
- ✔ lessen the pressure on and allow environmental recovery.
- ✔ reduce crime and eliminate deprivation.
- ✔ put an end to land and resource speculation.

Out with Pitt, poverty and taxation by stealth.

In with Site Rent, prosperity and justice for all.

* *Australian Financial Review*, April 25, 2000.

NOTE: Estimates of land values are derived from The Australian System of National Accounts 30th June 1998, Australian Bureau of Statistics Catalogue 5204.0. Unimproved site value are estimated as being 65% of Capital Improved Values (which, based on 1998 values are currently estimated to be A$1.26 trillion.) Resource values are estimates only, based on a wide range of official sources. Investigations by the Land Values Research Group have put estimated resource values at around two-thirds of unimproved land values.

BID TO RESHAPE THE 'HOWLING' TAX

FRANK PEDDLE reports from Ottawa

CANADA'S largest provinces, Quebec and Ontario, are going through an agonizing debate about the structure of local government. Municipalities in Canada are corporations created by provincial legislation. They have no inherent powers or constitutional status. On the other hand, most people view local government as something more than a business or a service delivery system. It is often the primary forum for passionate participatory democracy. It is not surprising that the property tax is called the "howling" tax.

Local government in Canada, as elsewhere, is complex and multi-layered. A recent work, *Local Government in Canada* by Richard and Susan Tindal, identifies thousands of local governing bodies with a long and rich history. The property tax in Ontario is the second largest source of revenue after personal income taxes. Over 50% of property tax revenues fund the public school system. In recent years Ontario has created megacities or amalgamated various lower tier municipalities, such as Toronto and Ottawa, and greatly centralized provincial control over the property tax system. From the standpoint of sound property tax reform the changes in Ontario have been nothing short of disastrous.

Quebec is moving much more slowly and cautiously with respect to municipal restructuring. In 1998 the Canadian Research Committee on Taxation (CRCT) conducted a comprehensive analysis of property assessment data in the City of Montréal. Various scenarios were developed for shifting the property tax off buildings and on to land. In October, 1998, the findings of the CRCT were presented to the Bédard Commission with the following recommendations:

1. **That the City of Montréal seek provincial authority to adopt a two rate property tax on all taxable land and building values.**
2. **That the Montréal Urban Community be requested to valuate Montréal for property tax purposes on an annual basis and to continue the separate valuation and disclosure of the land and building values in the property assessment database.**
3. **That the Montréal Urban Community, along with municipal and provincial authorities conduct extensive digitized spatial modelling of the tax impacts on land utilization and resource allocation using Geographical Information Systems (G.I.S.) software in order to gain greater insights into the correlations between property taxation, land utilization and economic activity.**
4. **The surtax on vacant land remain in place.**
5. **That the valuation of exempt properties by the M.U.C. be continued and further analyzed for accuracy.**
6. **That the business tax on an annual rental basis be gradually rolled into the general tax rates once a two rate property option has been adopted by the City of Montréal.**
7. **That the business tax be phased out over a six year period with a 2% reduction in the rate per annum.**

In April, 1999, the Bédard Commission gave perhaps one of the most enthusiastic endorsements of Henry George's philosophy in the history of public commissions in Canada. In particular, it recommended:

- ❍ **That the government grant municipalities the power to impose different tax rates on land and on buildings.**
- ❍ **That the government authorize gradual increase in the ratio between the land tax rate and the building tax rate to ensure that the implementation of this differential taxation takes place progressively.**
- ❍ **That an in-depth updating of the assessment of lands precede this implementation of different rates, and the meticulous and distinct assessment of lands and buildings be at all times maintained thereafter.**

The Bédard Commission proposed that local government revenue be based solely on land values within five years of its initial implementation. Although it suggested that property be classified along residential and non-residential lines, it avoided the extreme fragmentation and tax rate complexity created by Ontario's property classification reforms.

The CRCT has recently produced a bilingual booklet entitled *The Missing Link in Municipal Restructuring/Le Maillon Manquant dans la Restructuration Municipale* which shows that no matter what the structure of municipal government, only a property tax system based on land values can achieve the diverse goals now thought to be only attainable through governmental reform. The booklet grapples with the progressive elimination of tax inequities, removing the obstacles to local economic prosperity, AND the benefits of Georgist reform for homeowners and businesses.

CRCT is distributing the booklet widely throughout Canada.

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