

Foreign Ownership

Gavin R. Putland writes: Re. "Foreign ownership of Aussie land: the peril of selling the farm" (Crikey, June 14). The obvious way to neutralize foreign ownership of land is to stop taxing producers and start taxing land owners in proportion to the values of their holdings. Then if foreigners own x percent of the land, measured by value, they pay x percent of the tax bill. (Income tax and GST don't have the same effect, except in so far as income and "value added" happen to be due to land ownership.)

The strategy works even better at State level because of the higher incidence of interstate ownership. The Commonwealth can limit ownership of Australian land by foreigners; but under s.92 of the Constitution, a State **can't** limit acquisition of land in that State by residents of other States. But a State can certainly tax the value of its land, and thereby offload the tax bill onto non-residents in proportion to the value of land owned by non-residents. In the case of land located within a State but owned by listed companies, the strategy works better still. Even if a company has its headquarters in that State, some (probably most) of the shareholders will be residents of other States, and some will be foreigners.

Of course the land owners will pretend that the tax is deterring "investment". But the only thing it can deter is ownership of land; and in so doing, it reduces land prices. It can't deter any productive activities carried out on the land -- by owners or tenants, residents or absentees -- because the returns to those activities are untouched by the tax. And no matter how heavily the land in one jurisdiction is taxed, not one square metre of it will flee across the border into a competing jurisdiction.

Foreign investment is beneficial if it represents **net** investment -- that is, the creation of new assets, such as when a foreign company builds a factory in Australia. Unfortunately the term "foreign investment" is now applied not only to the creation of new assets but also to the foreign acquisition of existing, irreplaceable Australian assets, such as land. The tax system should encourage the former, not the latter.



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