

# LAND-VALUE TAX SQUEEZE ON JAPAN'S SPECULATORS

PROPERTY TAXATION is back on the political agenda. With the value of assets plummeting around the world, governments are trying to make sense of fiscal policies that might help lift their economies out of recession.

Their fundamental dilemma stems from analytical confusion. Politicians know that the downturns originated when property prices rose to unaffordable levels; but they now think that rising prices - especially in the housing market - will help to stimulate a recovery.

◆ In Britain, the Tory electoral victory means the introduction of a hybrid property/poll tax.

John Major's government anxiously waits for new life in the housing market, but prices are likely to be further depressed by his plan to tax residential property. Houses will be placed in one of seven tax bands, depending on the rough-and-ready assessment of the market value - a figure which will be adjusted for the number of people living in the home.

In what is still a buyer's market, prospective homeowners are likely to insist on a discount on asking prices.

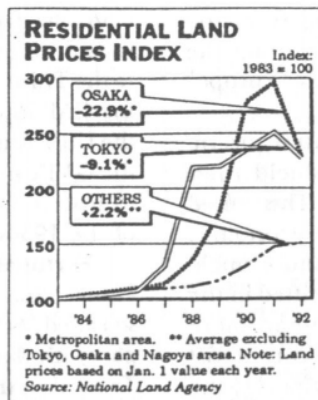
◆ The one country that is not confused about the role of property prices is Japan, where public debate zeros straight to the heart of the problem: the land market.

The Tokyo government correctly analysed the source of what is called

the "bubble" economy: speculation in land, which began in Tokyo in 1985 and then spilled into the speculation in equities of land-rich companies.

To curb the boom in land prices, the government - reacting to political pressure from Washington: the US wants to equalise trade with Japan - introduced a tax on land values.

Last year, land prices decreased dramatically for the first time in 17 years: average prices in residential areas dropped by 10% to 30% in the three major metropolitan areas. Land prices had pushed the price of homes beyond the reach of the average wage earner, causing deep dissatisfaction.



This year - the eighteenth year after the 1974 recession - the economy turned down. In April the government introduced emergency "pump-priming" measures - bringing forward public investment - to try and

restore the growth rate.

The unhappy owners of large and valuable sites (those who are not able to claim exemption from the land-value tax), alarmed by the decrease in the value of their land, are now asking the government to cut the tax, which came into effect in January. This year's tax rate of 0.2% on the assessed capital value of land (assessments are significantly below actual market values) will rise to 0.3% next year. In the current fiscal year, the tax is expected to yield 420 billion yen (a mere 0.67% of total tax revenue).

But industrialists are aware of the negative effect of high land prices. The price of commercial land rose by 13% in 1990, and suffered a 4% drop in 1991.

"We are afraid that high land prices might come again," one Finance Ministry official told me. But anxious trade organisations, including the Federation of Employers' Associations, are publicly warning that this must not happen.

## LETTER to the Editor

SIR, Lewis Little ("Your Pound in their Pocket," March/April 1992) was a little unfair to the Liberal Democrats. It is already manifesto policy to replace the Uniform Business Rate with a site-value tax, and there is a strong movement within the party to extend this idea in due course to other classes of land.

Before I returned to the Liberal Democrats after a period with the Greens, I got a letter from Paddy Ashdown stating that he was personally in favour of LVT for additional applications.

This was further reinforced by a letter from Jim Wallace MP, dated 4 June 1991, saying that LVT is "undoubtedly the front runner" being considered by the economic policy working group.

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## TAXES THAT HAMMER LAND DEALS

JAPAN has introduced a special tax on idle land, called the Special Land Holding Tax, which is intended to prevent speculative land deals and promote efficient land use. The tax (rate: 1.4%) is aimed at sites larger than 1,000 sq. meters inside city planning areas designated as "Districts for Identifying and Promoting the Utilization of Idle Land".

Among other land tax reforms are increased rates levied on capital gains (the rates being lower for individuals than for corporations), and improvements in the system for assessing the value of land. These changes are aimed at "strengthening prevention of speculative land transactions," according to notes issued by the Ministry of Finance.