Japanese urged: Return to basics

ANALYSIS from TOKYO by MAMORU OZAKI

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THE recent steep rise in land prices has led to a considerable widening of the gap between Japan's haves and have-nots. Not only are more businesses buying land, but the steep rise in land prices has caused problems such as the economic gap between metropolitan areas and outlying areas.

The widened asset gap could damage people's fundamental trust in equality of opportunity and lead to a decline in the will to work and the business spirit.

Moreover, Japan's land problem has become an international issue, for it allegedly prevents foreign business from entering the Japanese market.

The enactment of the Basic Land Act in December 1989 necessitates a comprehensive review of land taxation so that the tax system will be consistent with land policy. The review is also awaited in the context of the Tax Reform of 1988, balancing income, consumption and property.

The "Basic Report on Desirable Land Taxation", publicised by the Tax Commission last October, called for fundamental changes in the land tax system.

The report established two basic principles for land taxation: assurance of assurance of appropriate and equitable taxation, and land taxation as a part of effective land policy. These principles reflect the attitude toward land as a precious public resource.

The principles can be regarded as conflicting. The approach of this report, however, is that an adequate tax burden on holding, transfer and acquisition of land can reduce its advantage as an asset. This will prevent land holding based on price speculation and allow efficient use of land.

Although the report admits that taxation is an important method of solving the land problem, it also emphasizes implementation of other policies including decentralization, city planning and financial policy.

Last December the government of Japan decided on the itemised proposals for the comprehensive land tax reform based on the report of the Tax Commission. Legislation necessary to implement the reform will be submitted to the present session of the Diet.

The proposed reform includes many drastic changes. Above all, it proposes a new national land holding tax ("land value tax"). This tax rests on the assumption that the municipal fixed asset tax does not adequately tax the asset value of land. The municipal fixed asset tax is a levy on the usage value of land which considers the benefit of municipal public service to the asset holder.

Capital gains taxation will increase based on the balance between unearned gains from land and employment income, and the necessity to reduce the advantage of land as an asset. Some believe that capital gains taxation should be decreased to stimulate land sales and avoid a land sales gridlock.

But past trials of reduced capital gains taxation did not work as expected. Lighter taxation could favour land speculation and could increase demand rather than supply.

In addition, in cases of land transfer for certain objectives such as high-standard residential land development, favourable capital gains taxation will be expanded.

We expect that such a comprehensive review of land taxation together with implementation of other land policies will reduce the asset advantage of land, promote its efficient use while preventing speculative land holding and increase the supply of residential land, thus depressing land prices.

The following are the main points of the land tax reform proposed by the government.

(1) Introduction of the land value tax. Beginning in 1992, individual and corporate owners or lessees of land will pay tax yearly on the assessment value for the inheritance tax.

Tax is levied at the rate of 0.3% (0.2% in 1992) on the total amount of all land held by the taxpayer. The basic deduction is Y1 billion ($7.5 million) or Y1.5 billion ($11 million) for individuals and small corporations; or Y30,000 ($225) multiplied by the area of the land holding in square meters, whichever is larger.

Residential or agricultural land and land held by non-profit organizations is exempted in principle. Land used for public welfare facilities such as hospitals, railways and water supply is also exempt.

(2) Assurance of appropriate valuation for the fixed asset tax. As a result of scheduled revaluation this year, the assessment value is expected to rise an average of 30%. Rationalization of valuation will be also pursued thereafter.

(3) Assurance of appropriate valuation for the inheritance tax. The ratio of the valuation to the published land price will be raised.

(4) Introduction of taxation on idle land. Beginning in 1991, the municipal special land holding tax will be reinforced based on a newly introduced city planning system for identifying and promoting the utilization of idle land.

(5) Rationalization of taxation on agricultural land. Within the urbanisation promotion areas in the designated cities of the three major metropolitan areas, favourable valuation of agricultural land for the inheritance tax and the fixed assets tax will be abolished starting in 1992. Exception: agricultural land designated as "productive green tract area" for environmental preservation.

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Site-value tax test

B. W. BROOKES reports on TASMANIA

WHILE British poll-tax payers – and those who prefer to be non-payers – contemplate the sinking of Margaret Thatcher's flagship and reflect on the alternative ways of raising local revenues offered by the contending political parties, a group of citizens in the Antipodes are making progress in demonstrating to their government that a change in the local taxation system is also needed there.

At present, municipalities in Tasmania get their revenues from a property tax similar to Britain's former domestic rates – by taxing the annual value of land and buildings taken together. This system, and the way it maltreats those people who improve their properties, has long been the subject of criticism. Now, Tasmania's Municipal Reform Group have made an extensive survey to expose what they call "the fallacy of rating improvements".

Since 1970, the Group have surveyed a total of 28 municipalities to see how a change to site-value rating, under which buildings are completely excluded from the assessments, would compare with the present system.

Over the past four years, the Group have prepared 15 reports covering nearly 30,000 properties. The results show that the number of "winners" and "losers" from the change of system would be almost even; the assessments of some 15,000 properties would be reduced, while about 13,000 would be increased.

However, a detailed analysis reveals that, behind the statistical similarity, the pattern of changes compared with the way the present tax falls would be little short of dramatic.

Householders, for example, would make substantial gains. Of the 12,000 residential properties surveyed, nearly 11,000 would get reduced assessments, most of them slashed by more than fifty per cent.

Owners of commercial properties would also do well. Nearly three-quarters of the one thousand business properties that the Group examined would get lower tax-bills, more than half of them benefitting to the tune of fifty per cent or more.

Most of the properties that would be more highly rated under the site-value system were either vacant sites in the towns or "squatters" in the country, the latter being valuable plots of rural land not being used to their full potential. The great majority of these would find their assessments increased by more than fifty per cent.

The Reform Group's survey demonstrates conclusively that site-value rating would force a clear swing in taxation, away from well developed properties – houses, shops, office buildings – and towards those where inferior buildings and shoddy structures demean the intrinsic quality of the sites. There is no doubt that, if the change were made to the new system, the owners of such properties would be under strong financial pressure to modernise and improve.

The Group's honorary secretary, Ron Excell, told *Land & Liberty* that he saw the results of the survey as a complete vindication of the Reform Group's long-standing advocacy of "modern rating".

"The rating of improvements", he said, "has always been a blot on Tasmania's record as a progressive and enlightened community. It is about time we recognised the scandal of rating more heavily those who use their land properly and the sheer injustice of charging owners more in tax whenever they modernize their homes".

Referring to the properties that would be assessed more highly, he said: "Most of the vacant sites are valuable plots in or near town-centres whose values benefit considerably from local development, much of it financed by the general community.

"The majority of the rural properties that would be rated more heavily are valuable plots, probably held for speculation, that have been allowed to degenerate into weed-covered eyesores".

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(6) Strengthening of the tax system for individual long-term capital gains to a flat 30% from the present 20% and 25%, beginning in 1992. Also, the inhabitants tax will increase to 9% from 6% and 7.5%.

(7) Reduction of the reduced rates for supply of residential land to 15% from flat 20%, beginning in 1991. Inhabitants' tax will decrease to 5% from 6%.

(8) Strengthening of the tax system for corporate capital gains. Beginning in 1992, a 10% tax in addition to ordinary corporate tax will apply to long-term (over five years) capital gains. The tax system for super-short-term two years or less gains will also be strengthened.

(9) Countermeasures against tax avoidance. A certain amount of real estate income loss related to interest on land investment loans will not compensate for other income.