

The Federal Land Tax

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Ed: In federating Australia, the denial of access to land for all, attributed to holders of large estates, caused economic difficulty and deep resentment. Correcting this failure with a land tax drove politicians from across the spectrum.

The Federal Land Tax, imposed in 1910, differed from its State predecessors in that it was frankly and chiefly aimed at the big valuable estate.

Of course, revenue was a subsidiary object, for the expenditure on new projects such as the East-West rail line, the maternity allowance, old-age pensions, the navy, the Territory, and so on, called for funds which would have to be raised by loan, by increased customs and excise, or by tapping some new source of taxation. The yield at first was about £1,400,000 a year, but with the increase in rates in 1914 and 1918, and the taxation of Crown leaseholds after 1914, the yield from the tax climbed up to over £2,000,000, approximately 4 per cent of the total Federal tax income.

A perusal of Federal Hansard and of political speeches during the 1910 election, shows that the Labor Party had set its heart on using the Federal Parliament to

achieve the eviction of the big or idle landowner, who was regarded as the only obstacle to rapid closer settlement of the continent.

By 1910 it was evident that Australia was progressing far too slowly with the settlement of a big rural population. In spite of legislation in favour of the small settler, enormous expenditure in public works, resumption for closer settlement, irrigation, refrigeration, superphosphate, dry farming, immigration, agricultural education, &c, our rural growth was painfully slow.

The net immigration for the first ten years of this century had been only 40,000, and Victoria had lost 50,000 by emigration to other States or countries. The total population had increased by only a million in 16 years, despite the fact that during that period, 40,000,000 acres had been disposed of by the Crown to purchasers, and at least 100,000,000 acres to lessees.

Between the censuses of 1901 and 1911, the population of Australia grew 18 per cent, and the number of persons engaged in factories and workshops, 58 per cent. But the number occupied in agricultural pursuits rose less than 4 per cent, the number in pastoral occupations 36 per cent. Twenty years of experimental legislation, resumption, &c., had given New South

Wales 5,000 more agriculturists, Victoria 1,000 more, and Queensland 200 less in 1911 than in 1891.

'Enemy of Progress'

What was the cause of this snail-like progress of agricultural settlement? Was it lack of transport facilities, of capital, labour, energy, or markets? Or was it that pastoral work gave the least trouble, and made the greatest net return? The politician's answer was that the large estate was the enemy of progress. This view was naturally held by the Labor Party, but it was also shared by many prominent opponents of political Labor, such as Messrs. Deakin, Watt, and Cook. Mr. Deakin, in his twenty years' advocacy of irrigation, immigration, and closer settlement, had soon realized that big pastoral estates in the arable or dairy areas must be broken up or turned to better use, while Mr. Watt was the father of the Victorian tax on unimproved value. Australian land statistics are sufficiently detailed to show the extent of the big estate problem in 1910. In that year there were about 210,000 freehold estates of over an acre in Australia (Queensland excepted).

These holdings had a total area, of 107,000,000 acres. Of the 210,000 holdings, 1,150 had an area of over 10,000 acres, and 111 were over 50,000 acres in size. The total area of these large estates was nearly 31,000,000 acres, so 5 per cent of the total land owners held nearly 30 per cent of the alienated land. If we turn from the crude test of area to that of unimproved value, we find that in 1913 nearly 14,000 residents owned land worth £5,000 U.V. or over. Of these 561 had land worth more than £55,000 U.V. (or, roughly, £100,000 improved value), and their estates contained 31 per cent of the total area of country land subject to tax and 25 per cent of its unimproved value. Most of the big holdings were in New South Wales or Queensland.

In South Australia there were few large pastoral runs left inside the area fit for wheat or dairy farming. To 'burst up' these big holdings, to bring the land into better use or into the market, was the chief aim of the Federal land tax. The hopes of its supporters were great. Land would be made available for settlement in vast areas, and both the native-born and the immigrant would be able to satisfy their alleged land hunger. 'There will be an influx (of immigrants) which will be an object lesson to the world,' said one Senator, and Mr. Hughes declared that through the operation of the tax there would be 'land for the people, and where there is land there will the people come. There will not be lacking guests to sit at the table.' It is good that legislators should be so sanguine as to the effects of their efforts, otherwise we should get no laws passed.

'Turn of the Screw'

Unfortunately for the Federal land reformer, the Commonwealth Parliament had no power to touch land legislation on matters of tenure, and its only weapon for carving up the estates was a tax. Since only absentees and big holders were to be dealt with, residents owning land worth less than £5,000 U.V. were exempt from tax, as was also the first £5,000 of all residents' taxable estates. Further, since the big holder was to be pinched, the tax was progressive, working up, by one of those mystic formulae which charm the Federal tax collector and bemuse the tax payer, from 1d on the first taxable pound to 3.5d. at 75,000 of taxable value. Beyond that point a flat rate of 6d. was imposed. Absentees paid an extra penny all through. With the outbreak of the war, the tax was such a useful source of revenue that the screw was given an additional turn, and by an alteration of the formula the total yield was increased about 39 per cent. At the same time the area liable to tax was extended from free holds — real and virtual — to all crown leaseholds.

Originally about 70,000,000 acres had been taxed; now nearly 400,000,000 acres were covered. In 1918 one more twist of the screw took place, with the addition of a further 20 per cent to the rate of tax. Hence today a land owner whose estate is worth £100,000 U.V. is paying to the Federal Treasurer in land tax £2,312. If he lives in South Australia he pays an additional £405 for State tax, a total of over £2,700 in land tax alone. If he lives in Queensland, where the State tax is almost as steeply graded as the Federal, his total land tax bill to State and Federal coffers is £4,282, to say nothing of contributions to local government authorities. If the estate is worth £200,000 U.V., the total tax on the Queensland is £10,532, i.e., over 5 per cent, of the capital unimproved value of the land.

'A Complex Act.'

The Act by which this impost was made, is one of the most complex, ingenious, and incomprehensible in the whole history of taxation. It endeavoured to make the tax watertight against all efforts at evasion, and gave the man who levied the tax the power also to value the land on which he was going to charge. It established a distinction between primary and secondary taxpayers, by which if John Brown owned land worth £40,000 U.V. in his own name, and held one-hundredth part of the shares of a company which owned land, one hundredth part of the unimproved value of the company lands would be added to the value of his private holding; then, since his total holding was increased in this way by, say, £500, the rate of tax on his whole £40,500 would be raised. Ingenious, novel, but productive of much work for the department and of little additional revenue!

Results of Federal Land Tax.

The Federal land tax has now been collected for 13 years. During that time the rate of tax has been increased, and three States, Victoria, Tasmania, and Queensland, have introduced State taxation of unimproved value. It is time, therefore, to ask what results have been obtained; have the hopes of the supporters of the tax been fulfilled?

The Federal Royal Commission on Taxation shirked the task of answering this question, on the plea that the evidence is not available. May I suggest that evidence is available, or might have been obtained, on which at least a tentative opinion could have been expressed. The reports of the Commissioner of Land Taxation contain valuable statistical material, from an analysis of which certain broad tendencies can be traced.

The imposition of the tax undoubtedly led to a redistribution of land, especially at first, and in the case of large holdings. Some, probably much, of this redistribution was nominal rather than real, legal rather than economic. Partition of interest between joint owners, between husband and wife, between parents and children, and between partners, was, in the words of the Commissioner, 'not uncommon.' The 1912-13 report refers to 'a large number of transfers from parents to children.' In many of these cases the 'child' paid no deposit, but gave a mortgage for the whole value of the property, or agreed to pay an annuity to the parent. The Commissioner did his utmost to combat 'the considerable amount of ingenuity' displayed in these and other directions, demanding statutory declarations of actual rate enjoyment, searching the Lands Titles Office records, &c. It was evidential so that many large owners had made partitions of land by will for settlement just before the Bill was introduced in the Federal Parliament, anticipating the imposition of a heavy land tax as one of the first-fruits of the Labour Party's victory at the polls.

Artificial Subdivision.

In most cases of family settlement the estate remained virtually intact, and was probably worked as one block, in the old way. There was no change in the use of the soil, no increased settlement of people on it. How far this artificial sub-division went we do not know, and it would be extremely laborious work to find out. But in addition to the nominal transfers there was, especially during 1910-13, great activity on the part of owners in disposing by sale of some of their lands, and in consequence large areas passed into the hands of middle sized and small taxpayers, while a big portion passed entirely out of the taxable field.

The unimproved value of land passing out of the taxable

field, by sale or transfer, from 1910-18, was about £7,000,000. In the first two years over £23,000,000 U.V. went below the tax line, but after that the amount of land escaping; from taxation became smaller.

The unimproved value of all taxable land in 1910 was £184,000,000; the Commissioner estimates that this land would in 1918 have been worth £274,000,000. But £63,000,000 of it had escaped, so in terms of unimproved value about one-quarter of the land originally taxed passed into the hands of non taxpayers during eight years. We can take the enquiry further. Who sold or transferred? The big men disposed of large sections of their holding, and bought little, if any, land in return. For instance, in 1910-11, people paying tax on £120,000- £130,000 disposed of 47 per cent, of their estates; in the following year owners in the £180,000-£190,000 class got rid of 26 per cent of their land, and in 1912-13 owners in the £160,000- £170,000 grade reduced their properties by 36 per cent.

Resident-owners above the £200,000 mark disposed of land worth £7,000,000 U.V. and bought only £1,000,000 U.V. of new land. When Crown lease holds began to be taxed one company reduced its land tax payment from £79,000 in 1915 to £56,000 in 1917, by getting rid of 600,000 acres of freehold and conditional purchase lands and by reducing the U.V. of its crown leaseholds from £750,000 to £217,000. But though the big holders disposed of much land, the smaller taxpayers also reduced the value of their holdings. Men owning estates between £50,000 and £200,000 U.V. disposed of over five times as much land as they bought, and even the men paying tax on £1 to £10,000 sold twice as much land as they bought.

The Absentee Owner.

The effect of the tax on the absentee owner can be clearly traced from the statistics. Apart from the fact that some of the biggest absentees held land as share holders in companies, the absentee was found by the commissioner to be not nearly so big or so bad as he had been painted in public discussions. In 1910 there were only 3,606 absentee owners, holding land worth less than £7,000,000 U.V. It was chiefly freehold land, much of it in town blocks. Only 127 absentees owned land worth more than £20,000 U.V., and of them only 16 were above the £80,000 mark. During the first eight years of Federal taxation, the area of country held by the absentees fell by half, and the unimproved value by more than a half. £2,000,000 U.V. of land was sold, and only £300,000 bought. The U.V. of all absentee land dropped from £6,800,000 to £4,200,000. In all the eight years only 38 purchases of land were made by absentees paying tax on more than £7,000, and even in spite of the increase in land values the number of absentees paying tax on more than £20,000 dropped from 127 in 1910

to 67 in 1919. The taxation of crown leaseholds caused absentees to reduce their holdings of this kind from 10,000,000 acres to 5,000,000 between 1915 and 1917.

Details of Sales.

From various sources we learn details of the sales which took place. In some notable instances tenants on large estates were allowed to purchase their holdings in easy terms. In other cases the tax might create the desire to sell, but this desire was strengthened by the fact that good prices were obtainable for land suitable for agriculture. This was the case in the Booborowie area, where large transactions took place either in sales to the Government or in auction sales, at which the buyer was offered extremely generous terms. The hope of some Federal Parliamentarians that land would have to be sold at any price, and that the market would be glutted, was not realized, and there were very few cases of forced sale or serious depreciation in land valued. Who bought, or received under transfer? We have just seen that the land which passed out of the taxable field had belonged to large and small men alike. Of the £63,000,000 U.V., which went to non taxpayers in eight years, men owning land worth £3,000 to £5,000 U.V., took only about a quarter, i.e., £18,000,000. The remaining £47,000,000 apparently went to men below the £3,000 U.V. line. The men who bought were occasionally new to landowning, but often they were local farmers who purchased in order to 'add to the size of their farms; this was especially the case in one of the sales in South Australia where 6,600 acres in the Duncan estate went almost entirely to neighbouring settlers.

A Comparative Lull.

Unfortunately the Land Tax Commissioner's reports bring the statistics down only to 1917-18, so we cannot tell what has happened during the years of doom and depression since then. But we do know that after the

initial outburst of sub divisional activity in 1910-13 there was a comparative lull. The increased rates and taxation of Crown leaseholds in 1814 brought a decline in the number of big estates, but there was little increase in the number of small taxable holdings between 1914 and 1913. During that time the estates paying tax on over £50,000 fell from 630 to 543, but the number of taxable estates below £50,000 almost stood still, thus bearing out the contention that land has moved into lower taxable grades or out of the tax field altogether.

Gains and Losses.

We may say, therefore, that the land tax has achieved some of its purpose in so far as the diversion of large estates has been real and not nominal. But its administration has been cursed by complicated legislative provisions, and the abolition of the distinction between primary and secondary tax payers and the reconstruction of the valuation machinery are necessary. Beyond that lies the question whether there is any further work for the tax in its present progressive form to achieve if revenue is now the chief aim, can that revenue be raised in any better way? If the desire is, however, to go on breaking up big unused estates, how much land in big estates can with advantage still be broken up? Mere bigness is not an economic crime in itself, and some big areas can only be properly worked in large blocks. If settlement lags, if men turn from agriculture to pasture or grazing, if rural depopulation goes on apace, and our agricultural population grows only 10 per cent, between 1911 and 1921, what are the causes? Defective and expensive transport? Inadequate, inefficient, overexpensive labour supply? Lack of capital or credit facilities? Over costly machinery and equipment? Disorganized marketing machinery? The glamour of the town? Land monopoly? Lack of water supply? Before we paint rosy pictures for the British would-be migrant, we should search for an answer to these questions. The need today is for an exhaustive rural stocktaking of our continent.

"A tax on rent falls wholly on the landlord. There are no means by which he can shift the burden upon anyone else... A tax on rent, therefore, has no effect other than the obvious one. It merely takes so much from the landlord and transfers it to the State."

— John Stuart Mill (1806-1873) "Principles of Political Economy"
Book 5, Ch 3, Sect 2
