

Tax Set-Off: From Negative Gearing to Blast-off!

by Robert Keall

The rebating or set-off of tax losses against other income, currently used to promote investment in tax-free capital gains and to reduce income tax, can as well be used to implement Resource Rentals, now!

Most investments are expected to show a positive net return, and pay tax. The clever trick with property investment is to borrow to the maximum (negative gearing), so to incur a net loss to set off against other income, in order to reduce net tax payable. Newspaper advertisements invite the public to seminars to increase their income now by paying less tax, and later, by picking up a capital gain. On this basis some, on huge incomes, pay no tax at all, and may supplement their income with drafts against their growing equities – farming economic rent and inflation. Even among the many absurdities of the income tax regime, this is now regarded as anomalous.

The set-off mechanism can just as well be used to implement a land value tax or Resource Rental – now! The mechanism currently being abused to destroy society can also be used to build it. Any Resource Rental should be set off against other tax payable, not just deductible from other income for tax determination purposes. The charge would then be seen as a valid and fair alternative – not just another tax, vulnerable to vested interests and every tax collector, at every level, every year.

The merits of the land value tax are well set out elsewhere. For those who accept the case but protest that it cannot be applied without injustice, invasion of property rights, or huge compensation, set-off is the complete answer to their plaint. It is no more an injustice than:

1. Altering existing tax rates, as is done frequently.
2. Introducing a GST (Goods and Services Tax) or other form of tax with complex compliance costs.
3. Changing the Rating system to include or exclude improvements, or to reduce property rates in favour of User Pays charges, now done arbitrarily and without reference to the Ratepayers.

Income tax is the biggest offender of private property rights conceivable. Any tax that confiscates the just rewards of industry, saving, and investment in production is clearly an appropriation of private property – in other words: theft. Natural resources and natural monopolies are in fact public property and should not be misappropriated as private property. ***When this distinction between public and private property is recognized, the issue of property rights is neatly resolved.***

The use of a tax set-off resolves the issue of compensation by applying the charge progressively, and is accommodated by way of tax abatement accordingly. It must apply to any Resource Rental, natural monopoly license or land value tax.

Proceeds from Resource charges should be applied first to abolish GST, and then to give interim hardship accommodation to those caught in the transition, e.g. interim thresholds for valuations and/or income tax. Under set-off, any Resource charge is alternative, not just another tax. Above all ***it is seen as such by the individual taxpayer.*** Failure in this invites constant assault from vested interests.

Moreover, as a land value tax base is diminished and ultimately extinguished, the conversion to a comprehensive leasehold or rental arrangement can be institutionalised. This would ensure:

1. Collection of the full economic rent on a market basis, and an end to the inflationary element.
2. Provision for the disposition of improvements on voluntary relinquishment or forfeiture of the lease.
3. Other rights and responsibilities of both parties, such as compliance with environmental constraints, and protection from maverick bureaucrats.

The Public Bodies Leases Act already provides the framework, and covers many of these details.

Find more of Bob Keall's writing at: www.resourcerentalsrevenue.org