

'No-Tax' paradise

THE classical economists had no doubt about who paid when a government imposed a tax on people's incomes, or on the necessities of life: the landowner.

The tax was not absorbed by the payer, but treated as a cost and passed down the economic chain in the form of higher prices. Ultimately, this left a smaller "surplus" income, or rent, to be appropriated by the landowner.

That simple fact is ignored, today, with the result that a great deal of emotion is expended in a meaningless way when some changes are made to public policy. For example, when a government announces an increase in taxes that fall on consumption, the tax payer complains loudly; he forgets – or is unaware – that gross wages will inevitably rise to offset the loss in real disposable incomes.

Likewise, when a government reduces taxes, it claims credit for making people better off. According to the Reagan/Thatcher supply-side thesis, this provides incentives to people to work harder. In fact, the claim is a neat exercise in deception: for one way or another, after-tax wages are reduced to their former net levels, as the rental value of land rises to "mop-up" the taxpayers' fiscal windfall!

The process at work was laid bare last year, when the socialist government of the Seychelles abolished income tax. It did so



• Albert René, President of the Seychelles

SEYCHELLES

Population: 67,000

Currency: UK£ = R9.5,
US\$ = R5.4

GDP (1986): R517m

Politics: Controlled by the Seychelles People's Progressive Front.

without attempting to con its constituents, perhaps because there is no premium on duplicity in a one-party state where the politicians do not have to fear the consequences of the ballot box.

SEYCHELLES is a chain of 130-odd islands in the Indian Ocean. It is a former British colony, but the French slave-master had a greater influence on the culture of the people.

Today, the country lives off tourism and the export of tuna fish. Living standards are low, but not for nothing do the peo-

ple promote their tropical islands as "paradise". Apart from two attempted coups in the past eight years, in which South African mercenaries figured prominently, life is good.

And now they do not have to pay income tax! Paradise?

The government under President Albert René did not waste time and effort trying to delude the 18,000 people who lodge returns under the Pay-As-You-Earn system. In abolishing income tax from January 1, 1988, it had no intention of forgoing the Rupees 83m from individuals and R54m from companies received in 1987.

• The Business Tax Act (1987) simplified the sliding scale of rates, ranging from 10% to an upper limit of 50% on income over R110,000. Now, firms pay 20% on the first R36,000 of net income, and 35% on all profits above that figure.

• Employers were ordered to pay social security contributions on behalf of employees which just happened to be near-enough the sum which workers were formerly paying as income tax. The rate of contributions varies from 10% to 80%, depending on the level of wages.

The cost of employing labour was not altered, because employers reduced gross wages to the old net, or take-home, levels!

PROPERTY TAX

PROPERTY in paradise is exempt from taxation: owners do not pay taxes on the value of their land or buildings in the Seychelles.

Until five years ago, the government did not have a working record of property ownership. It instituted a cadastral survey, and so far 10,000 parcels have been registered. The files, which disclose the identities of owners and

mortgage encumbrances, are open to the public.

The survey still has to complete its work in Victoria and the northern part of Mahe, and on the islands of Praslin, La Digue and Cerf.

Jack Moroney, the Commissioner of Taxes, says that a property tax could be instituted, but "you might as well take the money from them in the way we are already doing, instead of putting in a new tax."

WHAT would have happened, if employees had managed to hang on to a significant slice of the wages they were formerly handing over to the government?

The single most significant effect – and the one which is singularly ignored by Western governments – is that land prices would have risen markedly.

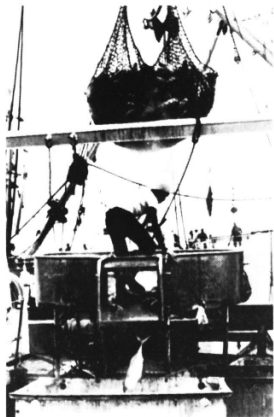
According to an official of the Ministry of National Development, land prices have remained stable for nearly 10 years. This, he believed, was because many enterprising Seychellois – presumably unhappy with the socialist “revolution” which the René government vigorously defends – emigrated to Australia and Europe.

Today, agricultural land prices range from R5-10,000 per ha, for poor quality land to between R40-100,000 for land suitable for coconut and cash-crop cultivation in areas like Grand Anse on Mahé. In Victoria, the tiny capital city situated on Mahe, residential land costs between R30-50,000 per plot.

SO LIFE goes on as usual. There were no street parties to celebrate the abolition of income tax, because the only advantage to the workers is that they are now relieved of having to fill in the tiresome tax form every year.

Mr. Jack Moroney, the Commissioner of Taxes, in an interview in his office in Liberty House, told us that the new approach was more efficient from the revenue-raising viewpoint, and it had not damaged commerce or industry.

“The government effectively decides the private sector wage structure. Companies have not been affected adversely, as far as the cost factor is concerned, because the cost of wages and social security contributions



• Tuna fish being landed in the harbour in Victoria, Mahe; the major export from the Seychelles

today is no greater than the cost of wages before income tax was abolished.

“The employer pays the same net wages as before, and the difference – the tax equivalent – now goes to the social security department. People are happy

enough about it. The complaints were minimal.”

Mr. Moroney, an Australian who was brought out of retirement from his farm near Brisbane to administer the new tax system, does regret that the money is now collected by the social security department rather than the Tax Division.

But if the abolition of income tax is no more than a paper transaction, for workers, there are two groups – fishermen and farmers – who are better off. For if they are registered with the marketing boards, they are exempt from taxation.

“We say, ‘We will leave you alone because we are not going to get much tax out of you, anyway’”, explained Mr Moroney. “Farming is not a lucrative activity in the Seychelles. We don’t have big farms; most of the big ones are government owned or they are cooperatives. Smaller ones make a reasonable living, but a lot of them are subsistence.”

CAPITAL TROUBLE

SINCE the system of Provincial Government in New Zealand was replaced by a more fragmented one, site value rating has been adopted by 90% of all municipalities. Such a fortunate result has been made possible by the use of referenda for deciding how local revenue is to be collected; and selfish vested interests have been outvoted.

All this is now changing, warns Robert Keall, Hon. Secretary of the New Zealand Land Value Rating Association. In accordance with the Rating Powers Bill, which came into effect on April 1, 1988, the traditional

democratic right of rate-payers to demand a referendum has been withdrawn, so that councils alone now have the right to make a change.

The City Council of Dunedin has already evaded the referendum by splitting the General Rate into Separate Rates, which even before the Bill were not subject to it, and has adopted the capital value system. There was strong local reaction to this decision, but to no avail.

Worse still, the Officials’ Co-ordinating Committee on Local Government, in a report published last December, has come out in favour of a

uniform national system of rating, which would remove the power of choice from councils and vest it in the central government. It also seems to be pointing in the direction of a mixture of site value and capital value rating, presumably in the hope of satisfying everybody.

The N.Z.L.V.R.A. is challenging this report, and at the same time urging the government, if it must have a uniform rating system, to opt for Site Value Rating. We await further information from Mr Keall, who is doing his best to increase the Association’s membership and financial base.