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Property valuer – 'why no opposition to EWC of hard earned profits, capital, interest?'

By Peter Meakin*

The thorn in the foot of South Africa's economy was caused by the current Minister of Finance. He can relieve the pain by complying strictly with the Constitution's sec 25.5:

> The state must take reasonable legislative and other measures, within its available resources, to foster conditions which enable citizens to gain access to land on an equitable basis:

The "reasonable legislative and other measures, within its available resources" starts with replacing income taxes and VAT with land taxes. Curiously he announced this in his 2018 MTBPS:

> National Treasury (NT) recognises the potential improvements in efficiency from land taxes (and property) as highlighted in the OECD "Taxation and Economic Growth".

But he failed to proceed. No one is surprised by departmental inefficiencies, nor that it took twenty six years to acknowledge, but failing to reveal the extraordinary costs of NTs inefficiencies was deceitful. There are known and estimated costs.

The known costs of South Africa's 2020/21 income taxes and vat are R1.14 trillion; 28%pa of GDP (incl 15% vat). This is because the sale of goods and services at after tax prices unnecessarily adds an average R70Kpa to the cost of living in South Africa's seventeen million households.

This is fruitless and wasteful expenditure because land taxes capture the same R1.14tr without any cost to consumers. For they target the land, not what people do on it.

And whether in Bishopscourt or Bishop Lavis, land taxes lower the entry cost to land from a capital to an affordable rental. This is strictly in accordance with sec 25.5. Land rents are a rates and taxes charge, excluding improvements. To match the R1.14tr income taxes and VAT each ratepayer will have to pay eleven times more rates and taxes than now.

The leading land tax country is Hong Kong where 35% of state revenue is land rents. In terms of GDP per capita (2020), and at purchase price parity, the IMF estimates that Hong Kongers will be the tenth most prosperous citizens in the world. That is richer than UK and USA yet lacking any mining or agriculture sectors. They will be five times richer than South Africans, together with whom they were equally poor in the 1960s.

This does not mean the Chinese are five times cleverer or more productive than South Africans but, for instance, foreign direct investments in Hong Kong (2017) were USA$1,9tr compared to USA$0,1tr in South Africa. Those investments in banks, manufacturing, real estate, tourism, infrastructure et al create jobs and wealth. Our President has emissaries searching for a further USA$0.1tr by 2014; 5% of Hong Kong's current FDI. He would not have to Kneel for Dollars in a Hong Kong type tax haven.

My estimate of the costs of NTs further inefficiencies is R762bn, most of it recurring. (the table is in Excel). These are departmental savings which I judge will arise when land taxes replace income taxes and VAT. They include the departments of Economic Regulation and Infrastructure, Industrialisation and Exports, Agriculture and Rural Job Creation, House Settlements, Community Development and cost savings in SARS.

Savings in income tax and vat costs will also arise from unused land as well as increased FDI and GDP. There is ±R100bn savings in not having to comply with SARS compliance procedures.

The second MTBPS admission was

Land is an immobile form of capital which can increase in value due to public expenditures to improve nearby infrastructure

The increase in land values from infrastructure spending is well established. For instance, the connection to a well-run Eskom will raise the average cost of a plot in an average suburb like Plumstead by R200K. For that is the cost of going off-grid there.

Apart from the costs there are anomalies between land taxes and income taxes and VAT:

- Land lasts in perpetuity but is valued at a p/e ratio of sixteen years. This is really key money. The term “freehold” acknowledges this for the key money is repaid on disposal.
- Land prices do not rely on any effort or capital of the owner but on nature, governance and state spending on infrastructure and services. Land prices are therefore a state subsidy.
- Landowners do not pay income taxes and VAT tax. They advance cash to SARS and then wait for land prices to rise in recompense. According to ABSA the land prices in Southfield, an averagely priced Cape Town suburb, have risen seventeen times since 1994; from R60K to R1000K. In the same period CPI increased four times.
- In our Judea Christian tradition one cannot own things one does not make, or commission. It is like not knowing the provenance of a forged painting. For the Cape Colony land was disposed of by Queen Victoria. But neither she nor Adam created the earth.
- Opposition to the expropriation without compensation of unearned land rents begs the question why is there no opposition to the expropriation without compensation of hard earned wages, salaries, interest, dividends, profits, capital gains, and consumption?

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