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Land rentals can fix the ills of our Eurocentric tax system

Dec 9, 2015 | Stephen Meintjes

Think of that: no value-added tax, no fuel tax, virtually no personal income tax and little or no company tax, writes Stephen Meintjes

AN EXCITING future awaits the country's forgotten rural areas, including the former homelands, if SA shifts from taxation of labour and capital to land rents.

While the entire economy is suffering under the current tax regime, the rural areas are worst off. Welfare benefits and housing have been rolled out, but jobs remain as scarce as ever. Other than that, the benefits from the ending of sham independence under apartheid and rejoining SA are few and far between.

Since traditional leaders have been in the news, we must ask ourselves whether this malaise is their fault. The short answer is most certainly not. While many of the contributory factors hit the headlines daily, the real culprit — our Eurocentric tax system — goes unnoticed. Until we, like the American colonists in 1776, reject our — in effect — foreign-imposed taxes, we will never be truly independent.

What does this mean, and what would be the particular advantage for, say, the former homelands?

First, we need to understand why we should shift from taxation of labour and capital to collection of land rentals.

Very simply, this is because all land value is attributable to the community, which provides landowners with security of tenure without which they would not be able to enjoy the man-made and natural advantages of their sites. Instead of this, our system taxes and penalises people for working and investing, the very things that create the goods, services and jobs we need.

What is proposed instead is that the community reaps the benefit of the land values it has facilitated by collecting land rentals instead of taxation.

The fact that land in the country's prime urban areas can be a million times more valuable than remote grazing land in the Northern Cape points to the revenue potential of such a move.

Therein lies the rub. Subjecting rural areas to the same levels of taxation as the cities blithely ignores the fact that they do not benefit in the same way from new motorways and other such infrastructure, all of which is reflected in the higher land values of those areas. Most rural areas are far from markets and, to add insult to injury, they have to pay even more tax, such as on petrol, than those who are close by.

The simple principle that the state should collect its revenue from the value it facilitates has a powerful corollary we seldom think of. From the fact that land rentals in urban areas would be vastly higher than rural areas, it follows that the latter, having little or no locational advantage, would pay little or no land rental.

The ramifications are immense: assume for a moment that these proposals were applied in their entirety: even if it took years of debate to achieve, the rural areas would become virtually rental-(and of course, tax) free. Think of that: no value-added tax (VAT), no fuel tax, virtually no personal income tax and little or no company tax.

They would become, in effect, one giant industrial development zone. It would then be possible for many businesses — large, small and micro alike — to take advantage of such "tax breaks" and stimulate economic growth in the areas that most need it.

It is perhaps worth noting in passing what happened when the tax breaks given to the former homelands were rescinded in the mid-1990s, when the Katz Commission recommended "harmonisation" with the tax system in the rest of SA.

The tax breaks were, of course, given for all the wrong reasons, but they did create many jobs.

Remember also that this was when the widely evaded 4% general sales tax was still in place. The effect of its replacement by the much more efficient VAT, combined with the move towards much higher taxes on petrol, personal and company income, was devastating.

Other factors were at play, such as the dismantling of protective tariff barriers, but there is no doubt that tax helped demolish hundreds of thousands of jobs in those areas. In one town alone, Butterworth, industrial employment went from more than 40,000 in the mid-'90s to only a few thousand now.

What is proposed instead — payment for community-created land values instead of taxation — would not only be fair and equitable, but would reverse years of economic erosion. It would certainly encourage efficient use of land in prime areas, thereby stimulating economic growth there.

Getting back to traditional leaders, what would their role be in all this?

Without doubt, the first and most urgent requirement would be to facilitate the establishment of security of tenure, either via legislation that has already been passed for this purpose or, if their people prefer, some form of communal tenure.

Either way, it must be done soon, for without it, homeland dwellers will have no incentive to improve their properties. Nor will they be able to raise the necessary credit if their title can be reversed at the whim of a traditional leader or official.

The next step is for the leaders to understand that the land rentals that their citizens will pay, although negligible at first, would gradually increase as development takes off. Moreover, this development would to a large extent be a function of the quality, efficiency and transparency of their own governance.

The third issue for traditional leaders to consider is that they have rejoined SA and that in terms of the constitution, the land belongs to all who live on it. This means that all land rental falls, in the first instance, to the national Treasury, which in terms of the constitution makes equitable allocations to provincial and municipal governments.

While there is scope for debate as to whether a clearly defined minimum proportion should go to local or traditional governments, the important thing for leaders to grasp right now is that all owners of land will be liable, in principle, to pay rental. As we have said, these rentals are likely to be much less than the current tax charges in rural areas.

Nevertheless, because land varies in value, rentals on some arable land, or even better quality grazing land, is likely to be significant. This means any sizeable landholdings that have been formed for whatever reason including by traditional entities, will be liable to pay rental.

What all this means is that, even in rural areas where land rentals will be low, the fact that some rental has to be paid means it will not pay any landholder to keep it idle or use it inefficiently. So the incentivising effect of land rentals — as opposed to the disincentivising effect of taxation — will work in rural areas every bit as dramatically as in the rest of the country.

Add to this some long overdue infrastructure, such as the Wild Coast Highway, and SA could soon enjoy the benefits of fast-growing regions that have in effect been "lost" for decades.

• *Meintjes co-authored Our Land, Our Rent, Our Jobs with Michael Jacques*

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