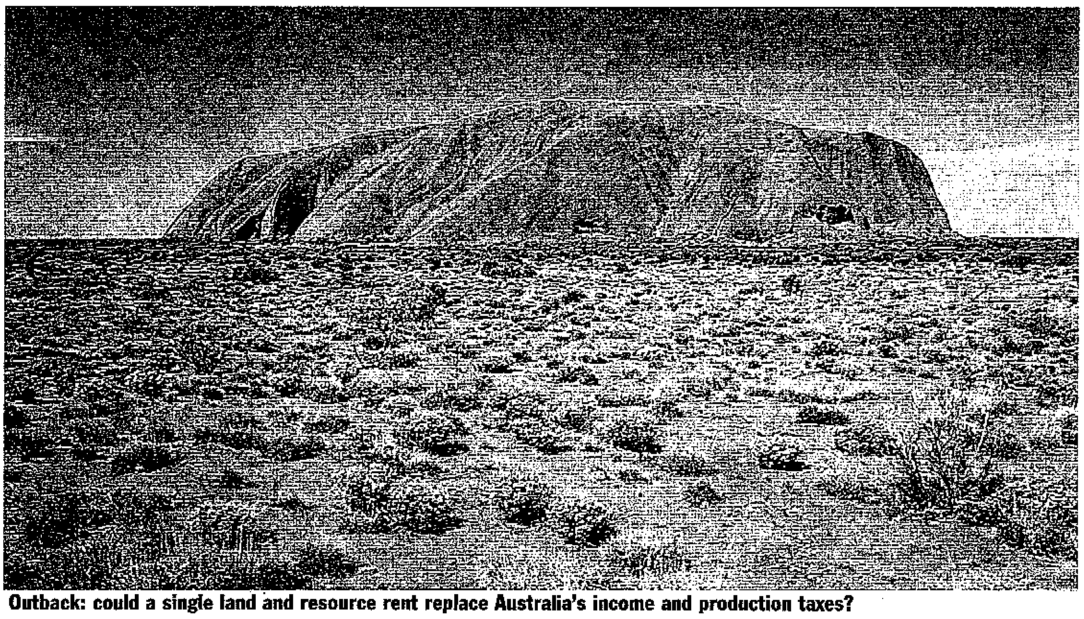
Breaking new ground

By Tony O'Brien



Outback: could a single land and resource rent replace Australia's income and production taxes?

THE LAND VALUES Research Group is working towards jettisoning all of Australia's direct and indirect tax in favour a single land and resource rent.

The Group, funded by the Henry George Foundation of Australia, has engaged Canberra economists Dwyer Partners to undertake a feasibility study. They will test the social and economic impact of replacing existing direct and indirect taxes with a single "tax". The immediate aim is to estimate the potential tax base of the unimproved value of land and other natural resources.

LVRG research suggests that a cost saving of at least 30 per cent in compliance costs without any shortfall in services is attainable. This would reduce the tax demand to around $A135 billion. A land and resource rent or economic rent, applied on capital unimproved values would deliver revenue in excess of $A150 billion.

This economic rent goes into private pockets and is not recognised by the Australian government as foregone revenue. That blind spot forces the government to look elsewhere to fund infrastructure. So, on the one hand land holders tax the unimproved value of sites and resources in the form of rents, land price and mortgages, while on the other the government extracts an equivalent or lesser amount in taxes, fines and tariffs to cover maintenance of the physical and social infrastructure.

> THE EASE with which land could be valued separately from buildings was demonstrated in Britain in 1963.
> Frank Othick, Secretary of the Rating and Valuation Association, and valuer Hector Wilks, led a team in valuing the land of Whitstable, Kent. They proved land could be valued accurately with rates levied on the basis of site values alone.
> The exercise was repeated in 1973, again by Othick and Wilks, to demonstrate how valuations could take account of local and national developments affecting land values.

The tax model being investigated is built on a framework of equity and social justice. Implementing such a revenue system could see the miasma of taxes and administration, replaced by a single charge on households and businesses. Australians are paying these site and resource rents twice over: once to the private sector reflecting the value of infrastructure, and again to the state. There are also dead weight admin costs to cover. The tax and compliance bill for the average household is $A22,000 which could be replaced by an average site rent payment of $A9,000.

With compliance costs of next to zero, this policy allows the removal of taxes on income and production.

Under this policy producers would retain the full return on their efforts. None could gain by monopolising, and ransoming to the highest bidder the country's land and resources.

The researchers intend to produce a static economic model, in which economic rent revenues would be compared with tax revenues. Explaining the background to and rationale of the project Dr Terry Dwyer, founder of Dwyer Partners said: "It is of critical importance to re-examine the potential tax base represented by land and natural resources as compared to income or consumption taxes.

"Valuation of land has to recognise that there are interactions between the value of different classes of land rights. If public utilities are allowed ... to include the value of easements in their assets [then] land values may be depreciated but the lost land value would be incorporated in the easement values. If increased land taxes are used to lower taxes on company and investment income, there will be an increased flow of capital seeking to invest in Australia. This will affect the value of Australian land, just as Hong Kong's 15 per cent tax rate has attracted business investment which has underpinned high land values."

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Tax experts clash in Scotland

PROPERTY TAX EXPERTS have clashed in their advice to the Scottish parliament.

The parliament's local government committee is carrying out an enquiry following the Scottish Executive's decision not to overhaul the Council Tax and business rate.

At the enquiry in December last year three directors from pressure group Land Reform Scotland criticised the Council Tax and business rate as damaging to communities and enterprises.

Convenor Peter Gibb produced evidence that a land-only based tax or "user fee" fosters renewal in cities