

Land tax

*Background paper for Session 3
of the
Victoria University of Wellington Tax Working Group*

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Overview

A land tax is a highly efficient tax mechanism which could be introduced as part of a package of reforms to the New Zealand tax system. The Group will wish to consider whether a land tax is worth further evaluation.

This paper provides analysis and empirical data to assist the group in its discussion. It is organised as follows:

- **Section 1** provides a **summary** of the key issues;
- **Section 2** sets out an **outline** of a land tax;
- **Section 3** looks at the **design issues** around a land tax:
 - how to accommodate those who may not have sufficient cashflow to pay the tax
 - the breadth of the tax base
 - whether or not a land tax should be deductible where it is an expense incurred in the production of assessable income (such as a land tax on rental property)
 - whether or not a land tax should be introduced gradually or at the full rate straight away;
- **Section 4** considers **economic efficiency**:
 - a land tax is highly efficient if comprehensive – a partial land tax could be inefficient if it applies to some forms of land but not others
 - the likely fall in value of land resulting from the announcement of a land tax could have an adverse impact on lending arrangements and lenders;
- **Section 5** considers **equity and distributional impacts**:
 - land ownership appears to be broadly proportional to income
 - a land tax would neither be greatly progressive or regressive
 - land is expected to fall in value when a land tax is introduced, and this impact is borne by those who hold their wealth in the form of land
 - a land tax would fall more heavily on certain people and may particularly affect superannuitants, heavily-mortgaged households, and farmers;
- **Section 6** looks at the **revenue raising potential** of a land tax:
 - because the base is large, a land tax can raise significant revenues at low rates
 - allowing a land tax to be deductible would reduce revenue collection

- the amount of revenue raised would be affected by the loss in value of land, which is difficult to estimate precisely but is highly sensitive to the rate of tax and assumptions in the modelling;
- **Section 7 analyses revenue integrity:**
 - provided a broad base and a single rate is used, a high degree of revenue integrity should be achieved, as no deductions will be permitted and it is difficult to conceal ownership of land
 - there is no significant concern that allowing deductibility of land tax will give rise to significant revenue integrity concerns;
- **Section 8 considers the contribution of a land tax to the coherence of the tax system:**
 - a land tax is stand-alone, so does not contribute one way or the other to a coherent tax system;
- **Section 9 briefly considers administration and compliance costs:**
 - a land tax is a very simple tax so should be straightforward to administer
 - compliance costs should also be low, as landowners will make a single, or perhaps a monthly, payment
 - consideration will need to be given to the most efficient collection mechanism.

1. The case for and against a land tax

The pros ...

Efficiency

A land tax does not distort investment behaviour as it applies to land which is in fixed supply. This creates a tax liability regardless of whether or how well the land is used. As the supply of land is perfectly inelastic (fixed in supply), market prices depend on what purchasers are prepared to pay rather than on the expenses of land owners. Accordingly, land taxes cannot be passed on and would be borne by land owners at the time the tax is announced.

A land tax is not expected to have an effect on those who acquire land following its introduction, who should have their increased outgoings exactly compensated for by a lower purchase price.

Significant revenue can be raised at low effective rates

Because of the size of the land base (approximately \$450 – \$480 bn, prior to any negative impact on land values as a result of the announcement of the tax) a large amount of revenue could be raised at a low effective rate.

Simple to operate and comply with

Because land tax liability would be calculated by reference to the value of land owned, and is expected to use local authority rating values as the basis for determining those values, a land tax should impose very little compliance cost on taxpayers. While Inland Revenue will need additional funding to administer a land tax, this additional funding should be less than would be required to administer some of the other base broadening issues being considered, such as a capital gains or RFRM based tax.

The cons ...

Impact on land values

A land tax would be expected to cause an immediate fall in the value of land by the net present value of the future land tax liabilities (and so constitutes a lump-sum tax on those who own land at the date of its introduction). An example provided in Coleman and Grimes¹ suggests that the introduction of a 1% land tax should result in a 16.7% fall in land values. But greater falls are likely if there is some ongoing real increase in land rents.

The expected fall in land values is very sensitive to the rate of tax introduced and to assumptions made in modelling. In particular, it will tend to be larger the greater is the expected real rate of growth in land rents. The calculation by Coleman and Grimes assumes no real growth in land rents.

A deductible land tax of 1% in conjunction with a 1% annual growth in rents, a 30% marginal tax rate for investors but other assumptions as in the Coleman and Grimes example has been modelled by Inland Revenue, and produces a 26.4% drop in land values.

Such falls in land values would have significant effect on existing land owners and others, such as investors and lenders. It might mean that people who currently have heavily geared land end up with negative net equity. This could in turn impact on the balance sheets of mortgage lenders, particularly banks.

¹ Fiscal, Distributional and Efficiency Impacts of Land and Property Taxes, paper presented to Tax Session, New Zealand Association of Economists conference, July 2009 Andrew Coleman and Arthur Grimes.

Fairness

A land tax could be criticised as being unfair. It taxes one component of wealth. The impact on land values would be borne only by those who are unfortunate enough to hold wealth in one particular form. Retirees, farmers and Maori authorities would be particularly affected. Tax bases that use broader measures of wealth, income or consumption better meet social conceptions of horizontal equity.

Cashflow issues

In its simplest form, land tax would be payable on an annual basis. However, land tax does not relate to a flow of income (e.g. income tax) or a transaction (GST). Consequently, payment of land tax may give rise to cashflow issues for some landowners, particularly those who have significant land holdings but lower income levels, such as retired people.

Property tax

The key issues arising from a property tax are the same as those described above for land tax, subject to the following exceptions.

A property tax is calculated by reference to the value of land and any buildings or other improvements on it. It may therefore disincentivise landowners from investing in improvements on the land.

A property tax may push up rental costs, and housing costs for owner-occupiers – no such effect is expected for a land tax.

A property tax will reduce investment in housing.

There are major definitional issues around what constitutes property and what the tax base should be – for example, should commercial and industrial buildings, barns, airport infrastructure or dams be included?

We are not aware of any prima facie case that a property tax would be desirable, so property taxes are not discussed further.

2. Outline of land tax

A land tax is a tax levied by reference to the value of land, without reference to the value of buildings or other structures built on the land. Land tax would be levied annually, and in ordinary circumstances be expected to be paid annually.

A land tax would raise significant revenues using a tax rate of 1%. A critical issue, however, would be the likely fall in prices which might accompany the introduction of a land tax. This adversely impacts revenue raising, as well as giving rise to other significant issues.

By comparison with other OECD countries, New Zealand currently imposes a low level of taxation on real property. In 2003, Coleman found that New Zealand had 5.7% of government (local and central) revenue coming from real property, whereas the OECD average was 8.3%.

Land taxes are in place in Hong Kong, and some Australian and US states. They have also been considered in a number of other jurisdictions, including Scotland and some African countries.

3. Design issues

Cashflow

As noted above, a land tax may give rise to cashflow issues for land owners which hold valuable land but have little disposable income. Primarily, this would be retired people, but similar arguments may be also made by Maori authorities and others.

One way to ameliorate the impact of cashflow issues would be to allow a land tax liability to be deferred by retired taxpayers, and perhaps some other groups. If deferred payment attracted an appropriate interest charge, no revenue loss would accrue to the government, and no significant equity issues would arise between those entitled to the deferral and others. One possibility would be to allow deferral until the relevant land was sold. This would be seen as undesirable as it would lock people in to their existing properties and would become a barrier to the efficient use of the housing stock. An alternative might be to allow the liability to be deferred until death. However, if the tax is not triggered when people sell existing land it may prove very difficult to collect. Consideration would need to be given to enforcement mechanisms, particularly where lenders might have security over the land.

Base

The inclusion or exclusion of different types of land is an important issue. Valuation of different types of land in New Zealand is shown in the second column of the following table. The third column shows those values following a fall of 16.7% as a result of the introduction of a 1% rate of land tax. Because, as noted above, the fall in land prices may well be greater than this, Inland Revenue considers this to be an optimistic estimate of values.

Table 1²

Land type	land value (\$ b)	
	(before reduction)	(after reduction)
All	486.0	404.8
Total excluding conservation and public	461.1	384.1
Residential, comprising:	298.0	248.2
residential owner-occupied	188.0	156.6
residential investor-owned ³	110.0	91.6
Commercial forestry	4.3	3.6
Agriculture	105.0	87.5
Industry / commercial / mining	53.5	44.6
Maori trustee owned	0.7	0.6

From these figures it can be seen that:

- If a reasonably comprehensive base is used, a significant amount of revenue can be raised. If only public, conservation and Maori trustee land were excluded, a 1% rate could generate gross revenue of \$3.8 bn per annum, subject to the assumptions noted elsewhere.
- Conservation and public land, and Maori trustee land, could potentially be excluded without a significant impact on the revenue base, although this may have some efficiency implications, and may also make it difficult to justify not providing exemptions for other groups of land owners.
- The exclusion of agriculture, residential (either owner-occupied or investor owned or both), or industrial would have a significant impact on the base, in addition to the compliance issues and efficiency losses that would result. The inclusion of the majority of land in the base would be required if a land tax is to be successful.

Deductibility

A question arises as to whether a land tax ought to be deductible where it would otherwise meet the test of expenditure incurred in deriving assessable income, or in the course of carrying on a business for the purposes of deriving assessable income.⁴

Having a land tax deductible would be consistent with general tax policy principles, and would be consistent with a coherent tax system. While this would contribute to the incentive to recharacterise private expenditure as business expenditure in the residential property sector, such pressures already exist now in relation to housing expenditure such as maintenance and rates, and the ability to claim depreciation.

² These figures drawn directly from Table 5.1. of the Coleman / Grimes paper cited earlier. They are based on 2004/05 data that has been "inflated" to 2006 using movements in house prices.

³ The figure for residential investor-owned is greater than the equivalent figure from the Census, but using a greater figure produces a conservative figure for a deductible land tax.

⁴ Section DA 1 Income Tax Act 2007, excluded income ignored for simplicity.

Given these existing pressures and the countervailing pressure for an arrangement treated as a business to show at least the prospect of producing income, the deductibility of land tax ought not to be a significant issue. If concerns did materialise then consideration could be given to specific rules.

If deductibility were allowed, a given rate of tax would reduce land prices by less, and raise less revenue. If a land tax was deductible on all land except owner-occupied residential property and an average income tax rate of 30% is assumed, revenues would be reduced by about 18% compared with a non-deductible land tax.

Speed of introduction

As noted elsewhere in this paper, one of the major disadvantages of a land tax is the lump sum impost on the wealth of existing landowners. Coleman and Grimes note that one way to ameliorate those impacts might be to have a gradual introduction of the tax – probably by way of a rate which started off very low and then increased each year before eventually reaching the “target” rate. Properties would therefore fall initially fall in value when the tax is announced, and then by an additional amount in each subsequent year that the discounted rate is payable, reflecting the fact that the target rate is one year closer to being reached.

However, the reduced fall in value is achieved by lowering the NPV of land owners’ future tax liability, which from the government’s point of view is a lowering of the NPV of the revenue stream from the land tax.

A phased introduction could also increase the temptation for lobby groups to seek a slowdown or exemption from the annual increases for certain sectors. This uncertainty might create further economic costs.

A phased introduction will also reduce the fiscal flexibility that would otherwise be gained from the introduction of an expansion to the tax base.

4. Economic efficiency

This part of the paper assesses land tax against the measure of economic efficiency. The typical proxy for this measure is to consider the distortionary impacts expected from a tax.

Very efficient taxes tend to be those that one cannot alter behaviour to avoid. There are often reasonable equity concerns with such taxes. These are likely to be greater the less comprehensive the tax is. For example, a lump sum tax on wealth in land is likely to be seen as less fair than a general tax on existing wealth. Equity concerns are discussed in the following section.

Highly efficient, provided comprehensive base and universal rate

As noted above, a land tax is a highly efficient tax, because the supply of land is inelastic (ignoring the tiny potential contribution of reclamation). While a land tax would cause the value of land to fall, that fall in value should be by the exact amount of the net present value of the future tax liability. This can be seen in the following simplified model. The model assumes a 10% interest rate, no income tax, no inflation and no growth in land values.

Assume that a land tax liability of \$100 per year is levied on a piece of land. At a 10% interest rate, a sum of \$1,000 would need to be invested to generate \$100 per year. The net present value of the land tax liability is therefore \$1,000.

The value of this piece of land will fall in value by \$1,000. This loss is borne entirely by the current owner, who will also have to pay the land tax liability for as long as they hold the land.

A future purchaser will pay \$1,000 less for the land than they would have paid before the introduction of the land tax. However, they will face a future liability of \$100 per year. Their economic position is the same as it would have been in the absence of a land tax, although the timing of their payments has changed.

A high level of efficiency is, however, dependent on the tax having a comprehensive base – applying to the greatest possible amount of land, and at the same rate. For example, a land tax which applied to agricultural land but not to forestry would result in a distortion in favour of investment in forestry. The land tax previously in place in New Zealand was repealed in the early 1990s due to precisely these kinds of efficiency concerns.

Even if a comprehensive land tax was introduced at the outset, there could be strong pressure on government through time to change the application of the tax, such as by exempting or lowering rates for certain sectors. The risk of this uncertainty can lead to a loss of efficiency, when investment decisions are delayed or not made not on the basis of their current rates of return, but uncertainty about their future rates of return.

A qualification to the high efficiency story is that there could also be inefficiencies if the imposition of a land tax leads to fears that its rate may be increased in the future. This possibility of the government increasing tax rates in the future is sometimes described as “sovereign risk”. Sovereign risk could discourage people from investing in land-intensive ventures.

Impact on lending arrangements

In both the business and residential property sectors, the fall in values may push some borrowers into negative equity. People affected in this way are unlikely to be able to make additional borrowings secured over their land for as long as they remain in negative equity.

There may also be issues around the financial position of lenders. Lenders typically restrict their lending to a proportion of the property value, so that if the borrower defaults then the lender can sell the property and be reasonably confident of recovering the debt, accrued interest and sale costs. A material reduction in property values would substantially erode the value of lenders' security. This may have flow-on effects for lenders, such as reducing their ability to continue lending in the short to medium term (to reduce their level of exposure) and the requirement for them to seek new capital. Lenders may therefore oppose the introduction of a land tax.

Reduction in general levels of indebtedness

Land owners often borrow some of the purchase price of land, but fund costs such as tax out of current income. Those who purchase land after the introduction of a land tax will benefit from a reduction in the up-front cost of land, but suffer from the imposition of the land tax in future years. This substitution of annual cost for up-front cost may reduce indebtedness levels across the economy over a longer timeframe. This point ought not to be overstated, because the new annual tax liability may increase the time it takes borrowers to repay their loans, and lower land prices may encourage new borrowers to enter the market.

Taxation of foreign-domiciled owners of residential properties

An efficiency gain is achieved by way of including foreign-domiciled owners of New Zealand residential land in the tax base. These landowners currently only pay local body taxes, and GST to the extent they consume goods or services in New Zealand. However, we have been unable to locate data on the share of land in foreign ownership.

5. Equity and distributional impacts

This section considers whether the burden of a land tax falls "fairly". Equity comprises both horizontal equity (equal treatment of taxpayers with the same level of wealth or income) and vertical equity (appropriate treatment of taxpayers with greater or lesser levels of wealth or income). Most economists consider that vertical equity is measured by the extent to which average tax rates increase as wealth or income increases.

land
value
a
measure
of
productive
capacity

Taxation of a single asset class – effect at introduction

Land taxes target a single class of capital asset (for a business) or savings (for the owners of owner-occupied housing). Owners of land on the date of announcement of a land tax suffer a loss in the value of their land and there is minimal impact on those who do not hold land. The impact therefore differs between those who have a substantial amount of wealth invested in land than those who do not, raising horizontal equity concerns.

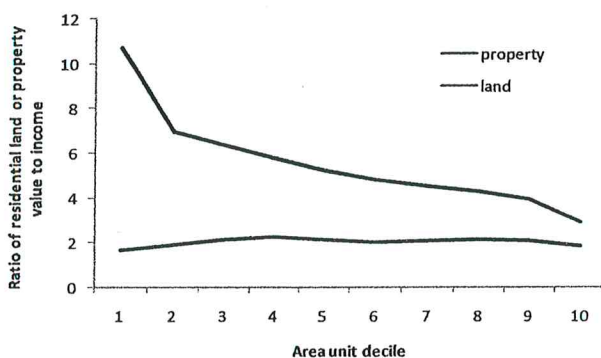
Distributional effects of a land tax

The following analysis draws on data from the Survey of Family, Income and Employment. As available data sets do not directly link land holdings with income, in some places the following analysis uses property holdings when, ideally, land holdings would be used. There are also some places where the analysis uses “area deciles”, which rank geographical areas by average incomes, rather than income deciles, which look at individual household incomes.⁵

However, some valuable information can be drawn on the likely progressivity of a land tax and the likely impacts of a land tax on superannuitants, highly mortgaged people, and farmers.

Impact of a land tax on people at different income levels

Chart 1: Property and Land as a Ratio of Each Decile’s Income



Source: Treasury using QVNZ and SoFIE data⁶

These figures indicate that the imposition of a land tax at a flat rate will, on average, lead to tax payments that are a fairly constant proportion of income as income rises. However, a flat rate property tax would have a greater impact on low income earners than high income earners, as tax payments would become a declining proportion of income as income rises.

⁵ The distributional analysis draws on (unpublished) work by Treasury using data from the Survey of Family, Income and Employment (SoFIE), which surveys 29,000 people from 11,500 households. The data was collected in 2004 and 2006, near the peak of the real property market. A limitation of the SoFIE data is that it has no information on land (as opposed to property) values. QVNZ data can provide land and property values, but cannot link those values to individual or household incomes. Therefore, unlike SoFIE data, QVNZ deciles are based on Area Unit deciles of property values, not income deciles. QVNZ deciles are formed by ranking all Area Units by their mean capital value. Decile 1 is the bottom 10% of area units, decile 10 is the top 10% of area units.

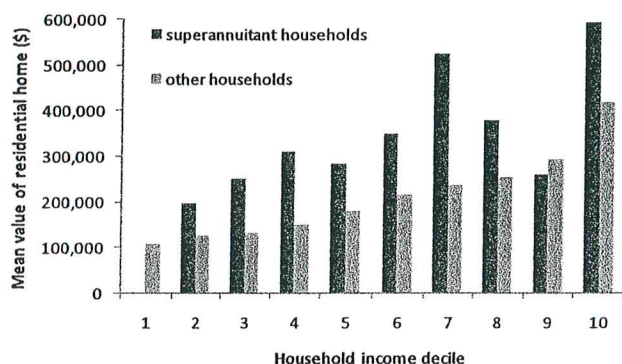
⁶ Providing the information on land required combining QVNZ valuation and SoFIE income data. The most notable resulting implicit assumption is that each income decile only holds the matching asset, e.g. decile 6 households are on a decile 6 income in a decile 6 house on decile 6 land. Cross-checks using SoFIE household income and property data generated results very similar to the result shown here for property, giving some confidence in the results shown here.

Although not shown here, SoFIE data suggests that holdings of investment property are also fairly evenly distributed across income deciles, when expressed as a fraction of annual household income. The data however sheds no light on whether this pattern is also true for the land component of those investments.

Superannuitants' primary residences are on average higher value than for other households with equivalent incomes

Superannuitants live in more valuable properties than non-superannuitants on the same levels of income (chart 2). This does not appear to be an artefact of post-retirement income reductions pushing lifetime-wealthy retirees into lower income deciles. Five of the superannuitant deciles have higher average property values than decile 9 non-retired households, and only decile 2 retirees live in properties that are materially cheaper than decile 8 non-retirees. Officials are unsure of the underlying cause of this relationship, but do not currently have the data to examine this further.

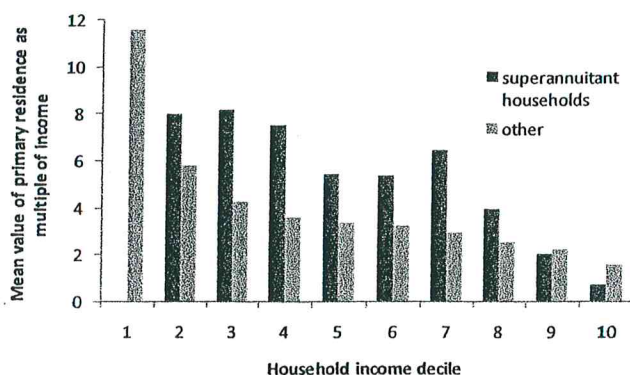
Chart 2: Mean value of property of superannuitant and non-superannuitant households



Source: Treasury using SoFIE data. Superannuitant households are defined here as those with at least one member aged 65+ who is retired, and with no other workers in the household.

Superannuitants in deciles 2-8 would need to devote a larger proportion of their income to paying a land or property tax than other property owners on similar income levels (chart 2).

Chart 3: Mean value of primary residence as a multiple of income for superannuitant and other households



Source: Treasury using SoFIE data.

Superannuitant household incomes are highly concentrated – 56% of superannuitant households are in income deciles 2 and 3, 81% are in deciles 1 – 5 and only 9% are in deciles 8 – 10. Therefore, numerically at least, the primary concern would be with deciles 1 – 5. In addition, as superannuitants already receive a universal transfer payment, an administrative mechanism already exists for delivering to superannuitants targeted compensation for a land tax, should that be considered necessary.

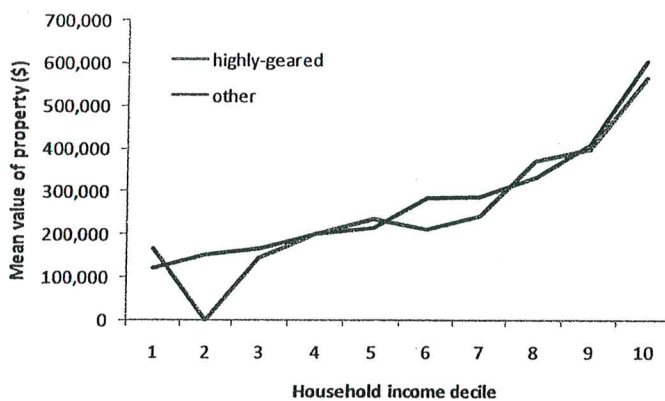
Heavily mortgaged households: Same house, more debt

We examined the property value and income distribution of heavily mortgaged households. The data here shows households that have loans which are 70% or more of the value of their properties. This represents only the most indebted ten percent of SoFIE households – less than 10% of the total sample – when ranked by loan to property value ratios. These households have loans which are 70% or more of the value of their properties.

When considering these figures, it is important to remember that the fall in value caused by the introduction of a land tax, estimated earlier in this paper to be 16.7% or more but highly sensitive to assumptions, are falls in value of the land component only. As the land value is only a component of property value, the fall in property value as a result of the introduction of a land tax will be a lesser percentage than the fall in value of the underlying land.

The property holdings (including investment property) of these highly geared households is very similar to that of other households.

Chart 4: Highly geared and other household's property holding by decile

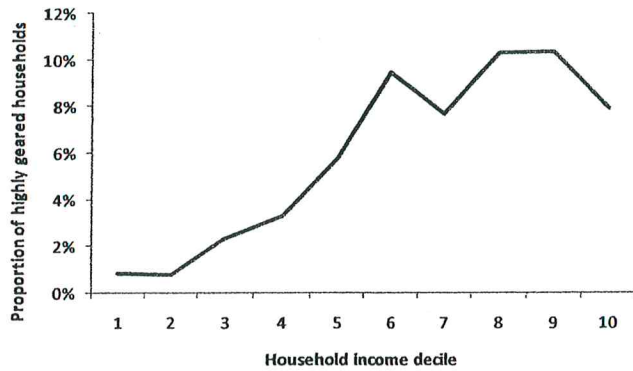


Source: Treasury using SoFIE data.

Therefore it appears that any cash flow or land repricing difficulties arising from a land tax would be due to the debt alone, and not be exacerbated by the highly geared households holding a relatively large property portfolio for their income.

The bulk of highly geared households are on more than median incomes. More than 75% of highly indebted households are in deciles 6 – 10 (chart 5). This is probably unsurprising as low income households face tighter bank borrowing constraints.

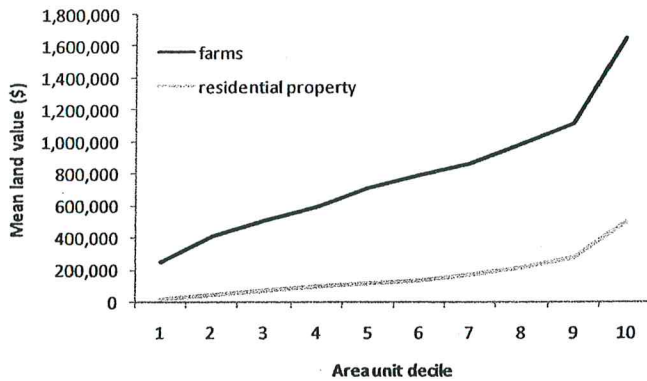
Chart 5: The share of each decile that is highly indebted



Source: Treasury using SoFIE data.

Farms: High land values

Chart 6: Farms have high land values across the deciles

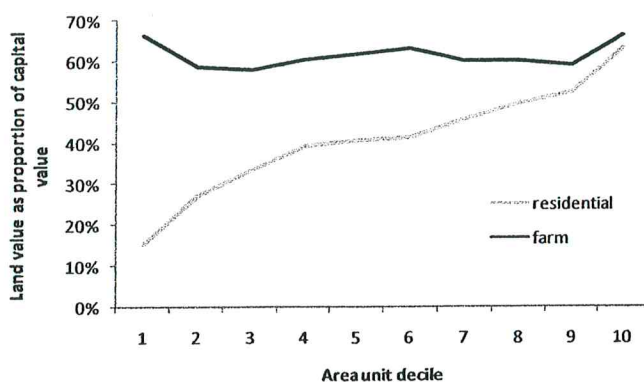


Source: Treasury using QVNZ data

In addition the fraction of farm wealth represented by land is relatively high, and a fairly constant 60-65%, across the deciles.

Farm land values are relatively high across the deciles, farmers in all deciles would on average pay more land tax than non-farmers (chart 7).

Chart 7: Average land value as a proportion of capital value



Source: Treasury using QVNZ data

It is worth noting that farms typically combine a residential property and a business asset in the form of land. Farmers are therefore no different from other investors with valuable holdings of land, such as forestry investors, individuals with a substantial residential rental property portfolio, or those whose retirement savings are held in listed property unit trusts. Those investors would be similarly disadvantaged, but cannot be identified in this data.

Housing affordability

A reduction in property values may improve housing affordability for some prospective purchasers, who will typically be people on lower incomes. Coleman and Grimes say that it will have minimal effect on those who are income-constrained, because, as noted above the reduction in price is exactly compensated for by the increase in tax obligations (and the NPV of the land tax obligations arising beyond the end of the typical new mortgage will be nominal). However, it should improve housing affordability for those who are deposit-constrained, provided lenders maintain the same percentage of purchase price as their minimum deposit requirement and the new land tax liability does not create an income constraint.

6. Revenue raising potential

Revenue raising potential

As noted in the Design Issues section, a broad base for a land tax (all land except public, conservation and Maori authority) could have a value of about \$384 bn after the value fall following the announcement of the tax. A tax at a rate of 1% will therefore generate gross revenue of \$3.8 bn. This assumes that the imposition of the tax would lead to a 16.7% fall in land values. A greater fall in land values would lead to a lower amount of tax. The tax can be readily scaled, but because the introduction of the land tax affects prices, the revenue is non-linear. For example, a 0.5% land tax raises slightly more than half the revenue of a 1% land tax.

Effect of deductibility on revenue

We suggest under Design Issues that a land tax should be deductible where it satisfies the established tests. While this will reduce the revenue collected, for the reasons set out in that section we think that deductibility is appropriate.

The revenue consequence of allowing deductibility can be estimated as follows. The table earlier in this paper gives a value of residential owner-occupied land of \$156.6 bn. On the assumption that all land other than residential owner-occupied land is land used in producing assessable income, the “business tax base” is \$384.1 bn – \$156.6 bn = \$227.5 bn.

A 1% land tax will give rise to a total liability on “business” land of \$2.275 bn. The effective value of this deduction is the marginal tax rate for each investor, which will vary depending on their individual marginal tax rate where they are individuals, or the company rate of 30% or the trustee rate of 33% for investors which take that form.

A reasonable proxy for these rates is 30% – a significant proportion of land will be owned by companies, and it is close to the trustee and the higher individual rates. This would value the deduction at $\$2.275 \times 30\% = \683 m . Starting with a gross revenue of \$3.8 bn, the subtraction of the effect of the deduction of \$683 m will leave net revenue of \$3.12 bn, a reduction of about 18%.⁷

Effect of fall in land value on revenue

As noted above, the announcement of a land tax will cause land values to fall (although the impact of this fall in value may be spread if the land tax has a rate which starts off very low and increases over time).

The revenue calculations elsewhere in this paper have factored in an estimated fall in value of 16.7% as a result of the introduction of land tax at a 1% rate, although the fall in value could be greater than this.

7. Revenue integrity

Requirement for a broad base and standard rate

A well-designed land tax should easily be able to achieve a high level of revenue integrity. However, revenue integrity (as well as efficiency) will be significantly reduced if the base is not broad, or differential rates are applied to different types of land. Either of these differentials would encourage landowners to attempt to reclassify their land to an exempt or lower-rate class.

⁷ This calculation also assumes that all deductions will be able to be offset against income in the current year – which will not be the case for all taxpayers. To the extent to which some deductions are unable to be utilised and so carried forward, their NPV rather than face value should be brought into account.

Difficult to conceal liability

Some people liable to pay taxes by reference to income or transactions may be tempted to conceal or understate those income or transactions (or overstate deductions or credits) to evade or reduce their tax liability. A land tax payable by reference to the value of land owned, without any deductions or credits, is much more difficult to evade. Accordingly, a high level of revenue integrity can be expected.

Consequences of deductibility

As noted under Design Issues, we recommend that a land tax be deductible under ordinary principles. This may be thought to create an incentive for landowners to classify land as being used in a business. However, the deductibility of costs like repairs and maintenance, and depreciation, are already incentives for essentially private housing expenditure to be reclassified as business expenditure. There are existing barriers to restructuring arrangements in this way. Accordingly, allowing land tax to be deductible will only make a marginal difference to this issue.

8. Coherence

Land tax sits entirely outside existing tax structures. It makes no contribution one way or the other to a coherent tax system.

9. Administration and compliance costs

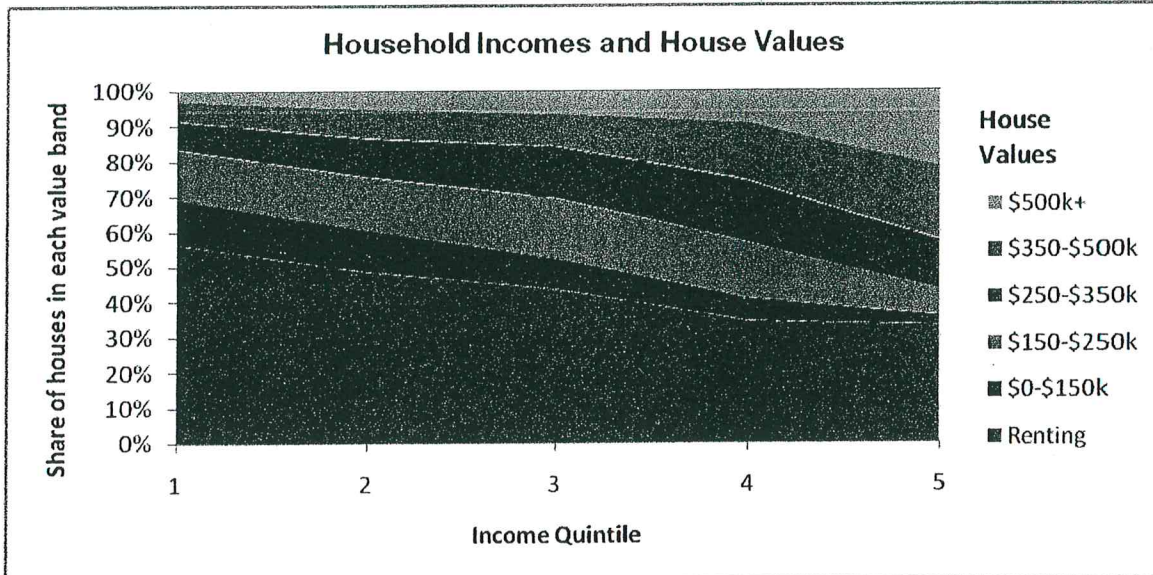
A land tax should be able to be implemented and operated with fairly low compliance costs, especially by comparison with some of the other potential expansions of the tax base. However, there are a number of second-order issues which would need to be addressed which may influence those costs.

One key area is valuation. Local authorities value property for rating purposes, but if these valuations were to be used it would be necessary to ensure that a land value was calculated, and that indexing to a common year was applied.

Consideration would also need to be given to the collection method to be used. There are a range of possibilities:

- Collection by local authorities along with rates.
- Direct collection by Inland Revenue, perhaps using an on-line self-assessment mechanism.
- Contracted-out collection, perhaps to telecommunications or electricity companies.

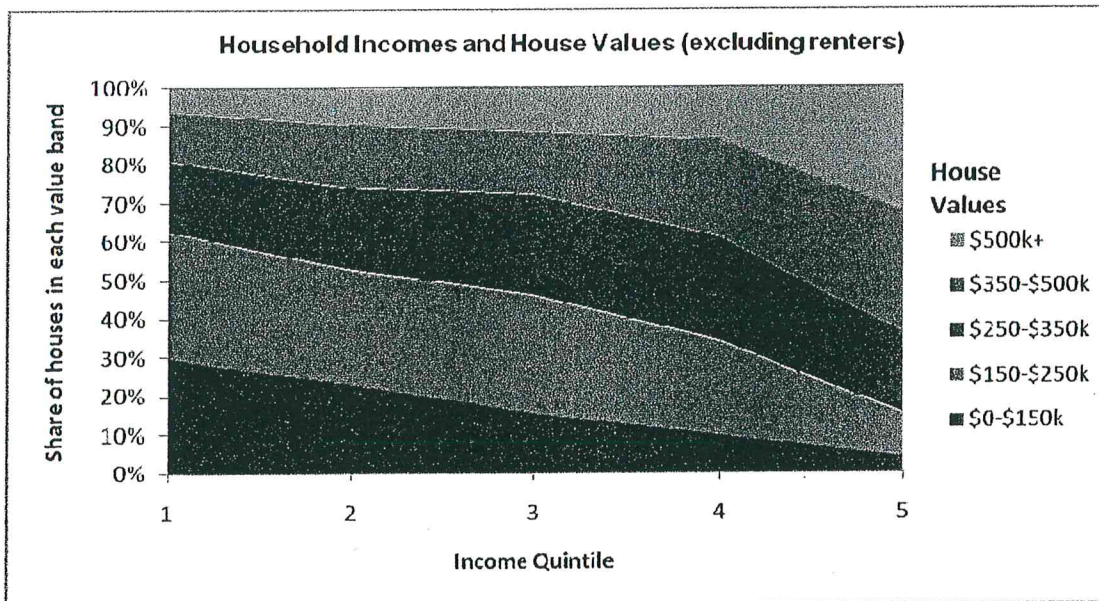
Addendum: Further Distributional and OECD Information



Data source: Coleman and Grimes 2009, *Fiscal, Distributional and Efficiency Impacts of Land and Property Taxes*, table 7.1

This is property not land distributions.

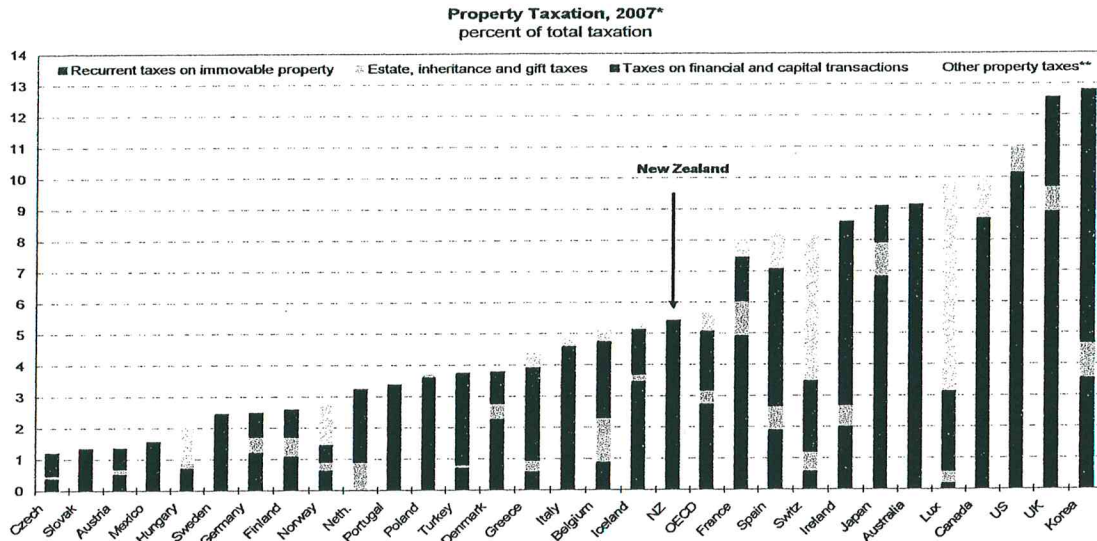
Renters decline from 56% of the quintile in quintile 1 to 33% in quintile 5. This group would face none or little of the land tax incidence.



The same data with renters removed so the ownership profiles are clearer.

All deciles own properties in all housing price brackets, with the cheapest and most expensive price brackets the most skewed.

Comparative OECD Data



* Uses 2006 data for Greece, Belgium, Mexico, Poland, Australia, Japan, Iceland, OECD total.

** Other includes Recurrent taxes on wealth, Other Recurrent taxes, and Non-recurrent taxes.

Source: OECD Revenue Database, 2009.

NZ is middle of the pack (13th of 31) in terms of property taxation as a % of total tax revenues. But:

- NZ takes a very high share of its property taxation from relatively non-distorting sources (along with the US and Poland). So NZ is placed 5th-highest for recurring property taxes in the 31 country sample.
- Of the 6 Anglosphere countries NZ has the lowest total level of property taxes, and the 3rd-lowest level of recurring property taxes (Australia and Ireland being behind NZ and US, UK and Canada ahead).