Land tax is simple and equitable

by Alex Sachez

Australians love their property. Whether it be their own place of residence or whether it be their nest egg investment place, Australians love to buy and accumulate property.

You don't have to look too far to see how the property obsession leaches into our culture. No dinner party anywhere can take place without someone interrupting the discussion with a synopsis of property prices and just how much the local gaffe in their neighbourhood went for. And our love of property has even reached into our dramatic heritage with contemporary Australian playwrights such as David Williamson filling his boots on the cultural psychosis of middle Australia's quest for that all important best house in the best street (or by the water if you're in Sydney).

For all that though, Australians do still spare a thought for housing affordability. Such thoughts may be short lived but we care nevertheless. As prices continue to rise for housing in our major cities, concerns manifest and policy solutions are raised. Will our children or grandchildren ever afford to own their own home?

Regrettably, you can't feel but a double standard when you listen to such complaints. After all, one person's exclusion from the market is another person's capital gain – but this observation has never seemed to feature widely. So it's no surprise that we look elsewhere for change. From removing or capping negative gearing, through to so called macro prudential measures on loan to value ratios and now even foreign investment restraints, all have been proposed to assist affordability. Add to these the recent policy ideas on accessing superannuation for housing or paying off stamp duty by instalments, all have been aired of late. But there amongst this menu, one measure is clearly missing that actually address affordability at its source– a broad based land tax.

The time has come for policy makers to go further than in the past and actively look at measures that adjust the price of property assets and land values more broadly. This is where a broad based land tax comes into the fore. Land is perfectly inelastic – fixed in supply and completely immobile. (You can't move your land to a low taxed nation for example). This makes it a perfect candidate for taxation on efficiency grounds. A tax on land is borne by the asset holder – making the cost of land more affordable for the remainder. And given those with the most land (or the more expensive land) pay more tax, land tax is highly progressive and equitable. As the Australian Bureau of Statistics highlights, inequality in Australia is wider when taking into account assets and net worth than when taking into account income alone. A third of all wealth in the highest income quintiles is tied up in property compared to less than 20% for those on the lowest income quintiles. If you want a tax that doesn't distort incentives and targets the wealthy, then land tax should be clearly on the agenda.

Internationally the push for broader land taxes is gathering steam. The International Monetary Fund has called for governments to consider land taxes as an equitable and efficient form of taxation. The IMF has fallen clearly on the side that suggests that land taxes are efficient and equitable because their base is immobile and because their incidence is borne by capital and landowners. The Henry Tax Review also called on decision makers, particularly in the States, to examine expanding land taxes as a means of funding their spending commitments as populations age.

Regrettably though, politicians shy away from broad based land taxes in fear of scare campaigns. We can all recall the former Treasurer, Wayne Swan, ruling out the GST before the Henry Tax Review commenced but we forget that Mr Swan also quickly ruled out any effort on a land tax. The irony and contradiction of Mr Swan aggressively pursuing a resource rent tax but ignoring taxing the rents from property owners was apparently lost on many economic commentators. At the end of the day, whether you get a windfall from a one off spike in commodity prices or you get a windfall on your property from a new piece of urban infrastructure, you are securing an economic rent. If you reside outside the major centres, nothing can be more galling than seeing property holders in Sydney's inner and eastern suburbs get windfalls in their property prices from investments in government provided infrastructure. All taxpayers bear the cost of these projects from general revenue, but all the upside is provided to those lucky (or should I say wealthy) enough to live adjacent to the new links. Some of these gains can and should be legitimately clawed back by government.

The potential for a scare campaign on a land tax for the family home is obvious. Who, for example, can forget Malcolm Fraser's efforts to handcuff Labor to a potential capital gains tax on the family home. And the plethora of exemptions and carve outs to existing State land tax arrangements are a testament that politicians have little stomach for extending land taxes to as broader base as possible, including the family home.

But yet, despite all the potential for hysteria, all Australians pay a land tax, they just call it a local government rate. Local councils have well established procedures to manage fairness and to deal with income poor households, allowing landowners to pay the tax by way of a liability on the future sale of the property. These arrangements can be easily applied if land tax arrangements were broadened beyond local government.

However, a prerequisite for the introduction of a land tax must be the removal of stamp duties on property transfers or conveyances. To remove stamp duties on property and to replace them with an increase in tax other than a land tax would only provide a windfall to potential vendors, who would look to accumulate some or all of the stamp duty relief in their selling price. Similarly, applying a land tax and maintenance of stamp duties on property would be hitting potential purchasers twice.

Of all the taxes in the Australian taxation hierarchy, it is surprising that stamp duties are not seen for the pernicious tax they are. State government's get away with stamp duties because as any property buyer well knows, the pleasure from the purchase effectively camouflages the stamp duty hit. (Behavioural economists call this optimism bias or the valance effect). The States have an over reliance on property stamp duty taxes and when the property market is booming with trades, they enjoy budgetary windfalls. Like Federal company tax revenue during times of commodity price booms, such windfalls can mask a thousand sins. Surprisingly, the Murray review of Australia's Financial System did not consider the extent to which debt arising from stamp duty impositions beared down on the stability of the banking sector by loading up households with more debt than they would accrue in the absence of them.

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