A national land tax?

The system of taxation needs to focus on assets, not merely on incomes and expenditures. It is asset price inflation that has been a major element in growing inequalities of wealth in Australia, particularly during the last two decades. Ownership of landed property has been central to this process, land being outstandingly the largest component form of asset holdings in this country. Land is a natural asset which is essential for all socioeconomic activities, but its private ownership gives rise to uneven wealth distribution between 'insiders' and 'outsiders' and a corresponding array of social problems. Particular biases arise where the taxation arrangements give preferential treatment to ownership of this asset, as has been the case in Australia.

Landowners capture unearned income at the expense of the rest of the community. They benefit from rising land values that are, typically, the product of societal processes. For example, residential and commercial land values usually increase when new public infrastructure is built nearby. Landowners can receive particularly large windfall capital gains when their land is rezoned to allow more intense development. Yet more fundamentally, the driving force causing higher land values, particularly in urban areas, is the nature of the urban growth process itself. While demand for sites for residential or commercial activities is continually growing, the supply remains relatively fixed, so the result is a long-run tendency for inflation in land values. Without adequate taxation on land to recoup this social dividend, the rising land values resulting from the community's productive efforts add to existing landowners' wealth, while those unable to afford land are further excluded from the market.

These processes are a major contributor to economic inequality. They are also largely responsible for the stresses of housing affordability, given that land is usually the largest component in housing prices. They have a dubious ethical basis too: those fortunate enough to have owned land in desirable areas capture the economic surplus at the expense of those making productive contributions to its creation, and at the expense of future generations saddled with higher prices for access to urban land and housing.

The case for using land tax to counter these adverse features of property markets is well established, particularly by proponents of the economic analysis and policies pioneered by Henry George. The Henry Review acknowledges the advantageous features of land taxation. Economists – not renowned for their unanimity on other matters - almost invariably emphasise the relative efficiency of land taxes relative to stamp duties payable on property transfers. Levied on the site value of the land, annual land tax liabilities create a disincentive for hoarding unused land and a means of stabilising land prices by reducing the attraction of real estate for speculative investment. In the absence of comprehensive land taxation, the other existing taxes – mainly on individual incomes, company profits and consumer expenditures – tend not to keep up with the growth of the economic surplus captured by landowners.

Each of the State governments and the government of the Australian Capital Territory already levy a land tax, but land used for owner-occupied housing is exempted in all cases. Local government rates are also, in effect, land taxes because they are usually levied on the unimproved capital value of properties, although the form of these rates varies considerably from locality to locality. These forms of land tax are well established, albeit rather marginal to the principal sources of revenue that the Commonwealth currently commands. To be more efficient and effective, a land tax would need to be uniform nationwide. This would prevent property speculators from simply shifting their investments inter-State to reduce their land tax liabilities.

One reform option would be to replace the current array of State and Territory land taxes and local government rates with a nationally uniform land tax scheme. Such a scheme could be linked to a reform of local government finance. Replacing the existing local government rates with an apportionment to local governments from a nationally uniform land tax could potentially be an economically efficient – and electorally attractive – reform.

More comprehensively, the introduction of a nationally uniform land tax scheme could be linked to development of a system of regional government. This could provide an institutional and fiscal basis for more balanced regional development. In general land tax can be expected to generate more revenue per hectare from those regions where land price inflation is most pronounced. Because the land tax liabilities tend to be higher in metropolitan areas than non-metropolitan areas, particularly rural areas, this would tend to encourage regional decentralisation of population and industry. That tendency would be further accentuated if additional revenue from a more comprehensive system of land taxation were used for regional redistribution, such as financing better infrastructure and services in non-metropolitan areas, thereby linking tax reform with regional policy. Using land tax revenue to substantially expand the supply of public housing is another means of directly linking the policy to the redress of economic and social stresses in the housing market.

Clearly, the case for uniform land taxation involves all levels of government - Commonwealth, State, Territory and local - so consultation and cooperation between all the affected parties would be necessary to secure broad agreement on the features of the reform. It is presumably too much to expect the current Tax Forum to wholeheartedly embrace this grand project. But the longer the reform is deferred the more problematic become the inefficiencies, inequalities and housing affordability problems that result from the inadequacy of the current land tax arrangements.