

Land Tax

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Excerpt:

As the supply of land is fixed, the burden of the tax falls entirely on the land owner. There is no change in the rental price, and no deadweight loss.

Land tax is a payment for the services to a location. Some locations have better amenities in terms of public transport, roads and libraries. Other locations are more convenient, some more beautiful. These are all factors that influence how much we pay for living in an area. A land tax is a simple way to recognise these benefits and repay society for the privilege of living there.

Over hundreds of years, land tax has been understood as the fairest and most efficient tax available. Ask these three questions. Who created the earth? Who should profit from it? How should we finance government?

A land tax ensures those who live in the best locations pay a little more than the person near the quarry. By doing this, we also deter profiteering by hoarding prime locations for easy profit. A land tax set at a reasonable rate ensures land is put to its best and highest use.

In its simplest form, a land tax is an annual percentage charge on the value of the land, payable by the owner. In Australian practice, it is levied at progressive rates, with exemptions.

The land tax can't be "passed on" to tenants in higher rents, because landlords are already charging the full market price. Such an annual charge leads to an immediate recognition by landlords to use their land as efficiently as possible. Thus the 80,000 vacant properties we typically reveal in our Speculative Vacancies report become uneconomic to hold. This provides a spur to the land market as vacant homes, poorly used land, and spare bedrooms add to supply, putting downward pressure on rents.

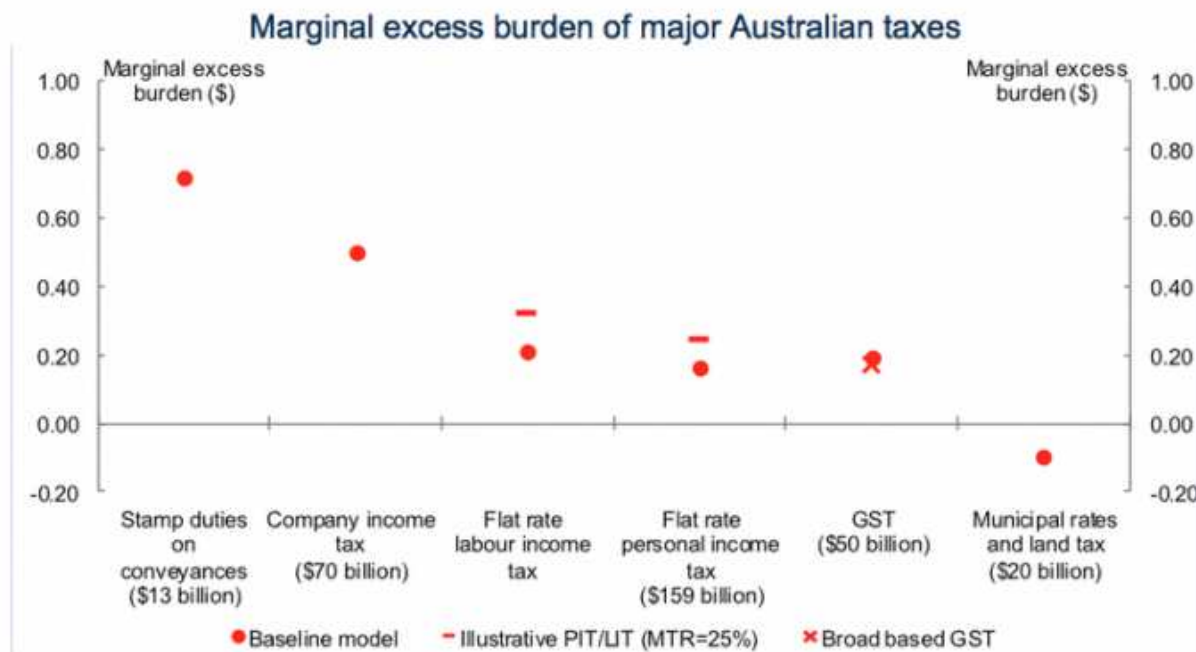
Land taxes aren't a cost of letting the land. It's a cost of *holding* the land whether you let it or not. So you *must* find a tenant to cover the holding cost. And the more you need a tenant, the *less* you can demand in rent. Because land tax can't be passed on to tenants, property speculators don't like it. So they campaign against it — by pretending that it can be passed on. Don't fall for it.

Best Practice:

Land tax should be charged at a flat percentage rate on the prevailing land value. The land must be valued yearly and include no threshold. [Instead,] the Victorian land tax threshold rate increased from \$85,000 to \$250,000 between 2001 – 2009, allowing more of the naturally rising value of the earth – the rent – to be privatised into the bubble we now endure.

The rate at which land tax is set is debatable. We would like to see a 6% rate implemented. We are confident this would reduce land prices in many areas. The resultant revenue can fund the removal of company, sales and income tax.

Land taxes also enjoy the least deadweight costs. Stamp Duties for example cost some 70 cents out of every dollar raised due to the inefficiencies such a tax imposes on the economy. Land taxes actually add some 8% to the economy thanks to its dual nature of being the fairest and most efficient tax there is. The following Federal Treasury graph reiterates this:



Comment:

Here, Prosper Australia advocates a revenue positive land value tax, recognizing its “best tax” features. Thus, a fair and efficient tax produces enough revenue to replace some of the less efficient taxes that produce a drag on the economy.