

**Land Rent
as Public Revenue
in Australia**

A. R. HUTCHINSON

CENTENARY ESSAYS—No 3



Economic and Social Science Research Ass.

LAND RENT AS

PUBLIC REVENUE

IN AUSTRALIA

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"The observed results simply confirmed by statistics the effects that could have been predicted from site-value rating. It should be obvious, without the need of statistics, that public finance policies which penalise people for using their sites properly - and reward them as they neglect to use their potential - must have a stagnating effect upon the development of any community. It must tend to tie up in the sterile holding of vacant and under-developed sites the funds that could and should be invested in buildings, trade, commerce, manufacture, employment and all those things that are the life-blood of the community. The reverse process, which creates incentives by removing taxes from the results of land use and places them upon the site potential alone, inevitably produces the superior development that comparisons between the States show."

CENTENARY ESSAY No. 3

ECONOMIC AND SOCIAL SCIENCE

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TO MARK the centenary of the publication of Henry George's classic, *Progress and Poverty*, in 1880, the Association invited various authors to write essays which would relate his philosophy and economics to conditions prevailing today.

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T H E A U T H O R

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P R E F A C E

ONE HUNDRED YEARS AGO, Henry George convincingly demonstrated that land rental income was the "natural" and just fund out of which a monetised economy should derive its revenue to finance public expenditure. Because he argued that this one single tax would produce beneficial results for both production and income distribution, and that other taxes were injurious to the economy, his teachings gave rise to what became known as the "single tax movement".

Ever since then, the major criticism from opponents of the philosophy of property rights that underpins this fiscal reform have used the notion of the "single tax" to attack George and his book, *Progress & Poverty**. They have asserted that public spending far exceeds the income of the land-owning class**. Triumphantly, this has been held to clinch the case against the proposal to tax the annual value of land for the benefit of the community. It does no such thing.

First of all, the constructive influences of land-value taxation on the industrial economy are sufficient in themselves to commend this fiscal policy. No matter how much (or little) the tax would raise for the exchequer, the dynamic impact - through, for example, the termination of the destructive power of land speculation - would justify placing the tax at the disposal of the chancellor.

Secondly, however, the critics who use the argument that land rental income would not finance all of public spending have conveniently ignored a crucial question: what are the justifiable limits of public expenditure? Henry George did not advocate land-value taxation as a form of alchemy; profligate rulers of old, who were compelled to debase their citizens' currency to finance their wars and lavish living, learned that their chemists could not fructify gold out of a cauldron! The case for tapping the value of nature's resources for the benefit of the community does not fall because the revenues would not finance the annual multi-billion pound budgets that are required for the weapons of death that currently distort the consumption of the wealth of nations.

Thirdly, however, the critics have based their verdict on a conclusion reached by the route taken by many a crooked businessman: they have "cooked the books". Or, just as bad, they have simply ignored all the facts; they have refused to do their arithmetic before levelling the charge that land values would produce paltry revenues. Allan Hutchinson's study begins the systematic attempt at straightening out the books.

* First published in 1879; centenary edition published by Robert Schalkenbach Foundation, New York, 1979.

** One of the earliest of these critics was William Hurrell Mallock. For a critique of his statistical computations and arguments, see R.V. Andelson, editor, *Critics of Henry George*, Rutherford: Fairleigh Dickinson University Press, 1979.

Hutchinson, the Director of the Land Values Research Group, has made a life-time study of land rental income in Australia. For the purpose of this present analysis, he takes the fiscal year 1976/77 to examine the accounts of the continental economy.

It is symbolically apposite that this critique should take Australia as its case study, for a large proportion of the country's municipalities levy their rates (the local property tax) on unimproved land values alone.

In 1976/77, revenue from Federal, State and local government taxes was A\$24.8 billions. The revenue from land value taxes, local authority rates on land, and lease rents, totalled just over \$1.6 billions. This figure, although it does not include the \$241.1 million royalties from publicly-owned mines and forests, is a fraction of public revenue. However, if the full assessed value of all sites were taxed for the community's benefit, the sum raised would be \$4.5 billions. This figure is arrived at by calculating the portion of site values left in private hands under the existing fiscal system, which Hutchinson estimates at \$2.9 billions.

It would be premature of critics of Henry George's philosophy to regard these statistical magnitudes as a vindication of their opposition, for the figure of \$4.5 billions seriously understates the potential annual income to be derived from the soil fertility, minerals and locational attributes of the Australian continent. To reach an accurate figure, a variety of adjustments have to be made.

Even if we froze the Australian economy into its present form, we would find that rental income is much higher than at first sight seems to be the case. For example, official valuations understate the value of land. Revaluations are not on an annual basis, but vary from periods between two and ten years. Thus, when land values are rising rapidly, as in the 1970s, this leads to serious distortions in the statistics. Hutchinson has calculated that the under-estimates can vary from 59 per cent (Queensland) to 108 per cent (Tasmania). By recomputing the data in accordance with the growth trends found with the most recently revalued property, Hutchinson discovered that the true figure of rental income remaining in private hands leapt from \$2.9 billions to at least \$4.2 billions. So it appears that the true taxable capacity of landowners is well concealed from the public!

The next point to note is that the values given for rateable land do not include the value of mines, for which rights to royalties are usually reserved to State governments. They also exclude a substantial proportion of holdings that are exempt from municipal rates and land taxes. These comprise properties held by the Commonwealth and State governments, religious bodies, hospitals and charities. The total value involved for all States is unknown. But the figure for Queensland is published; in 1976/77 rates foregone on exempt properties equalled 12.9 per cent of the total general rate revenue collected. The proportion exempt would be greater in New South Wales and Victoria, which have a larger concentration of government organisations. This, and other valuation shortcomings, would increase the real site rent of Australian land, in Hutchinson's view, to over \$5.2 billions, excluding mineral and forestry royalties received as public revenue from publicly-owned lands.

We now come to the most important point, which is the one least capable of quantification. What would happen to land values under a reformed tax regime? There are sound theoretical and empirical reasons for believing that if we imposed a 100 per cent tax on the *ad valorem* value of all land, rental values would increase enormously. This point warrants exhaustive study elsewhere: here, I can only make a few points.

If taxes on wages and capital were reduced in line with increases in land value taxes, part of the privately-retained income would be spent in such ways as to increase directly or indirectly the demand for land. With a higher level of income, people's tastes change. They would want more spacious houses, access to better recreational facilities, and so on. As the demand for land rose, so would land values.

Higher income means greater consumption. The whole level of economic activity would rise to a new plane, to accommodate the increased personal prosperity. This would lead to increased demand from the commercial and industrial sectors for land which they would need to expand their productive capacities. The increased competition would drive up land rental values (this pressure would be initially modified by a flow on to the market of land hitherto held idle for speculative purposes).

Under these collective influences, land values would rise and so benefit the community through the increased revenue received by the exchequer. Given the present state of knowledge, it is not possible to calculate with any confidence the ultimate statistical magnitudes which would be determined by these considerations. It could be argued that the whole of current exchequer revenue, whatever its nominal source, is at the expense of rental income. Henry George has been cited in support of this contention, for he formed the view that if government expenses were reduced, the ultimate beneficiaries would not be wage earners but rather the landowning class.* In other words, if taxes on consumption or wages were reduced, monopoly landowners would force their claims upon society and appropriate the whole of this sum.

This must still be a controversial conclusion. If income taxes were drastically reduced, wage earners would expect to retain some of the benefits. Henry George, along with other economists of his time, noted that minimum wage levels acceptable to workers were in part determined by what was called "habit", ** which is a variable determined by a variety of socio-psychological as well as economic factors. It would not be unfair to predict that workers would resist the pressures to spend the whole of their increased income on higher rents.

In any event, this statistical defence of the case for socialising the rent of land does not rest solely on the income side of the national accounts. For the gap between the potential annual income from land, and total exchequer spending, if one existed, would be smaller (or closed) in a civilized society. *Public expenditure would be reduced.* Governments, at the new level of individual prosperity, would not need to spend so much on public health, education and welfare programmes, as families increasingly

* *Progress & Poverty, op. cit.*, pp. 300-303.

** *Ibid.*, pp. 304-305.

exercised their private preferences based on their increased ability to buy what *they* wanted without the financial support from the public sector, or guidance from civil servants.

These considerations of what a reformed society would look like await detailed investigation: the time has come to undertake such studies as part of the process of enlightening the public. Socialism is not the only alternative socio-economic model to the present unstable western capitalist system. These new studies, however, *cannot* begin without an appreciation of the realities of income distribution. This is why Hutchinson's study is of immense importance to reformers. He has presented us with a model which will encourage others to do similar work elsewhere, thereby restimulating the debate on the parameters and processes of a more civilized society.

May 1981

FRED HARRISON
Editor,
Land & Liberty

I I N T R O D U C T I O N

AUSTRALIA, with an area of approximately three million square miles, is the sixth largest continental land mass in the world. In order of size, it follows Asia, Africa, Europe, North and Central America and South America. It is a little less than double the size of Europe after excluding the U.S.S.R. Australia is an arid continent compared with the others. The portions that have adequate rainfall, and are therefore suitable for settlement, are confined to a narrow coastal belt. Except for its minerals, the country has not been well endowed by nature.

Yet Australia, with its relatively small population of fourteen millions, now stands high among the well-developed nations of the world and has fewer extremes of wealth and poverty than are found in most countries.

An important factor that has made possible Australia's higher living standards, with almost full employment until the current world-wide recession, is the extent to which the rental value of land is collected by government for public revenue in lieu of taxes on labour and industry. This maximises wealth production and aids its equitable distribution, in two ways. First, by demanding a contribution based on the rent-potential of the sites whether used or not, it introduces a "cost of holding land underdeveloped" which stimulates the holder to put the land to use to earn its taxes, or release it to someone else who will. Secondly, the lowering of taxes on enterprise (which is the direct or indirect effect of increasing the proportion of public revenue collected from the rental value of land) encourages holders to make the best use of their land in the knowledge that they will not be penalised for doing so. Both work to maximise production.

The process of shifting taxes on production to taxes on land values does not depend for its effectiveness on conscious recognition by the contributor that land-value taxation is causing him to do something to better himself. It operates automatically through his tax assessments, reminding him that there is an outgoing on his underdeveloped land without a corresponding income from it. This, coupled with the knowledge that any

investment he makes to put his land into earning condition will not be taxed, provides a built-in force working towards land improvement. The effects in better distributed affluence follow as a matter of course, and may be observed.

Many people are unaware of the extent to which the present collection of land rent for public revenue is responsible for our undoubtedly high and relatively well distributed living standards. Cause and effect are somewhat masked by the fact that taxes on site rental value are not effected by one measure imposed by a single government authority. It is done, in fact, by separate measures of the federal, state and local governments concerned and, in some cases by semi-governmental bodies. To some extent this is a disadvantage from the point of view of public relations, since the effects, which are important in the aggregate, are masked by the multiplicity of the bodies collecting part of the site rent. Nevertheless, the piecemeal method of applying the principles has produced results where a single complete application would have been politically unattainable. At a later stage integration and consolidation may be possible.

The application of the principle has been extended progressively over the years, although the degree of application varies greatly among the six States and two Territories forming the Commonwealth of Australia; it also varies greatly in regions within the States. The process started locally with demands for land taxes to unlock the lands, and this happened even before the publication of Henry George's *Progress and Poverty* in 1879. The impact of that work gave it greatly increased strength, but there is still a very long way to go before the objective of collecting the full site rental value of all land for public revenue, in lieu of taxes on labour and industry, is attained. However, a significant measure of application has already been reached. It is the object of this paper to examine the extent of this achievement in Australia.

II METHODS USED TO COLLECT THE SITE RENTAL VALUE AND THEIR RELATIVE IMPORTANCE

THERE are three methods by which part of the site rental value of land is collected in Australia to defray the costs of government.

1. Land-value taxation by state governments.
2. Land-value rating by local government and semi-governmental bodies.
3. Land rent paid direct to governments for land leased from them.

State Land Taxes

All the Australian states impose a State Land Tax. The tax rates vary among the different states and are progressive, i.e. the rate of tax becomes higher as the total unimproved value of a holding increases. All states have a minimum figure below which no land tax is payable, the tax being levied on the excess above this minimum, and the effect of this is to exclude the smaller holdings from contribution. These features are serious departures from the principle that all land should be taxed at a uniform percentage of its value, and lead to injustices in the treatment of one land-holder as compared with another, causing dissatisfaction and criticism. Supporters of the whole basic principle press for removal of the exemptions and gradations and the conversion of the system to a wider concept of a State Development Fund financed by a uniform tax rate on all land values. Nevertheless, despite these blemishes, the land taxes are important and effective in stimulating better land use, particularly in the central areas of metropolitan cities where a high proportion of the total land value of the state is concentrated. These land-value taxes are contributing effectively to the re-development of these areas and the position would be very much worse without them. In acknowledging their limitations as they now apply, the aim should not be to abandon the land tax but to remove the blemishes in its administration.

Land Value Rating (Local Government)

This method is applied throughout the local government structure in Aus-

tralia and by many semi-governmental bodies. What are called local government rates in Australia are called local government taxes in some other countries. They are also grouped under the heading of taxation in some official statistics within Australia.

The only essential difference between land-value rates and land-value taxes as now levied are: (1) As its name implies, the rate method embodies equality of treatment, with each property holder contributing at a uniform "rate in the dollar" on the land-value he enjoys. This contrasts with the progressive rates in the dollar applied with the land taxes. (2) The land-value rate is accompanied by a corresponding remission of taxes upon the property holders' improvements. The revenue raised by it is not an additional impost added to the level of other taxes. The pre-determined level of revenue required has to be obtained either by the uniform rate on the land-value alone or on the combined value of the land plus owners' improvements. In essence, the latter alternative amounts to a lower uniform rate on the land-value plus a tax on the improvements varying according to the proportion of the improvements to the total value. Of these alternatives land holders generally prefer that their improvements be untaxed.

The land-value rating method is the purest form of application of the principle that contributions to government should be based on the value conferred on the site by the community and that owners should not be penalised for their improvements. This method is financially by far the more important, yielding approximately four times as much revenue as the combined state land taxes, and it operates without any considerable opposition from the property holders, for they are satisfied that there is equality in treatment between themselves and their neighbours. In contrast, there is dissatisfaction at the differential treatment introduced by exemptions and gradations within the state land tax as currently applied.

Nevertheless, there have been some recent objectionable legislative changes that are a departure from the rating principle. The main one is the introduction of a 'minimum rate charge' which shifts part of the rate incidence from the largest and most valuable sites and increases the contribution on the smallest and least valuable sites. These are referred to at the end of this paper.

Even where the annual rental value of land-plus-improvements is used as the rate basis in Australia, there is an important difference as compared with the system used in Britain and some other countries. There, vacant land is exempt from contribution. In Australia such land is rateable on a percentage of its unimproved value, ranging from four per cent in Tasmania to ten per cent in Western Australia. Thus, even where improvements are taxed in Australia, the burden upon them is nowhere near crippling as it is in countries where unused land escapes contribution.

The greater importance of land-value rating as compared with state land taxes has been overlooked by many authorities who have produced books and reports on land-value taxation in Australia. A conspicuous example is the work *History of Australian Land Settlement* by Stephen H. Roberts, published in 1924. This excellent work gives a very well documented chapter: "Land Taxation and Land Tenure". Yet it fails to mention land-value rating, although this was drawing more revenue, at higher percentage rates, from all properties, as compared with the state land tax payable only by some properties. Apparently the writer failed to appreciate that the basic prin-

ciple was the same although the term used to describe it was different.

Land Rent Paid Direct to Government

A substantial contribution to public revenue comes direct to the government as land rent for natural resources of which the rights have been reserved to the Crown as trustee for the people. With the exception of the cash sums received from sales of land, the payments under this heading accord with the principle that the rent of land apart from improvements should be absorbed as public revenue.

The reservation of these rights to the community was a relatively late development, after most of the land in the urban areas had been alienated. A high proportion of the total area of New South Wales, Queensland, South Australia, Western Australia, the Australian Capital Territory and the Northern Territory is either retained by the Crown as public reserves or let to individual holders under various forms of leasehold. Of the latter the most important are the perpetual leasehold revised rents payable annually to the government.

The extent of the freehold and leasehold tenures in the various states is shown in a table later. It will be seen that Tasmania has practically no direct revenue from land rents, its land having been disposed of under freehold tenure.

Approximately two-thirds of the total land revenue coming direct to governments in Australia is from royalties on minerals to which the rights have been reserved to the Crown. Tasmania has practically no revenue from this source. It suffers particularly by this since its mineral resources are extremely rich, but the rights were not reserved to the Crown. Other states profited from its lesson. The public revenue is now benefiting greatly in royalties from the recent discoveries of iron ore and oil in the states that have retained these rights.

Another important source of land revenue is royalty payments upon timber. The royalty payments from other resources are less certain than the land rentals since the mineral deposits will sooner or later be worked out. The land rentals can be expected to continue and to increase as population grows.

It is important to note that the rights to rivers, streams and water sources have also been reserved to the Crown, except those with some of the oldest land grants. Thus, the public does not have to pay tribute to private landholders for the water used for household supplies or irrigation, as must be done in some other countries. This is important since the aridity of most of the country makes water conservation essential and development could have been stifled if payments had been demanded by private interests. The income from the water sales to irrigators and other users is not included in the public accounts under the land revenue heading; it appears in the revenue of business undertakings for water supply, sewers, irrigation and drainage.

Similarly, most of the electricity and gas undertakings in Australia are publicly owned, and many operate on publicly-owned coalfields or other natural resources. The proceeds of their sales are thus an indirect but substantial ploughing back of land rent into the treasury for public purposes. Details of these undertakings are not given in this paper, which is confined to the direct contribution made to public revenue.

III LAND VALUATIONS IN THE VARIOUS STATES AND TERRITORIES

Definitions

Until recently the official term used in Australian valuation and taxation circles to describe the value of the land itself, apart from that of the improvements upon it, was "unimproved capital value". This was used by valuers in their work in all states. But for reasons of greater simplicity, convenience and certainty in the results achieved, the term is in the process of being changed to "site value". This differs from the Unimproved Capital Value in that the valuer is not required notionally to restore the land to its primitive condition. Instead, the improvements which for the purpose of valuing are imagined as not existing, are those which can be seen i.e. buildings, fences, sown pastures, etc. and include works undertaken on the land such as the removal of timber or stone, draining or filling of the land, erosion works etc. which have been made within the 15 years preceding the valuation.

This simplification has already been adopted in Victoria, New South Wales, South Australia, Tasmania, and is in process of adoption in Queensland and Western Australia. It was first adopted in Victoria but, while the substance has been accepted in all the states, the words "site value" have not been adopted to describe it in Tasmania and South Australia, where the same change has been made.

It is appropriate to record that a century after the publication of *Progress and Poverty* the use of the site value variant arose from the submissions of a prominent Victorian valuer to the New South Wales Royal Commission on Local Government Finance and Valuation, the report of which was presented on May 2, 1967. The Valuer was Mr. E. R. Inglis, L.S., F.C.I.V., who later became Secretary for Local Government in Victoria. In support of his case for adoption of the site-value concept he cited the section of Henry George's *Progress and Poverty* (pages 425 and 426 in the complete edition printed by the Robert Schalkenbach Foundation in 1962) which answered possible objections to his proposals in advance. Part of the section cited reads as follow

"... As a matter of fact, the value of land can always be readily distinguished from the value of improvements.... In the oldest country in the world no difficulty whatever can attend the separation if all that be attempted is to separate the value of the clearly distinguishable improvements, made within a moderate period, from the value of the land, should they be destroyed. This, manifestly, is all that justice or policy requires. Absolute accuracy is impossible in any system, and to attempt to separate all that the human race has done from what nature originally provided would be as absurd as impracticable. A swamp drained or a hill terraced by the English constitutes now as much a part of the natural advantages of the British Isles as though the work has been done by earthquake or gale. The fact that after a certain lapse of time the value of such permanent improvements would be considered as having lapsed into that of the land, and would be taxed accordingly, could have no deterrent effect on such improvements, for such works are frequently undertaxed upon leases for years. The fact is, that each generation builds and improves for itself, and not for the remote future. And the further fact is that each generation is heir, not only to the natural powers of the earth but to all of the work of past generations."

It is surely an appropriate tribute to the continuing message in *Progress and Poverty* that this acceptance of its original argument into legislation today can be recorded at the centenary of that work.

The Current Land Valuations 1976/77

The unimproved site value of the land in the various states, used for municipal land-value rating purposes, is set out in Table I (over page). It should be borne in mind that these figures understate the true value of the land in private hands at the start of the 1976/77 year. This is because, although valuation practice is otherwise good and seeks to achieve full market value, the valuations recorded in the official returns are made at intervals ranging from a minimum of two years to a maximum of ten years between re-valuations, differing according to the state involved. As land prices have been increasing for many years at rates varying among the different states but averaging at least twenty per cent annually for metropolitan areas in every state, the true total and individual figures for the valuations currently in use will be higher than those shown below, and the differences will be greater in some of the states than others. Correction for these differences would be important in any discussion of the sufficiency of the land rent revenue potential to meet all legitimate public purposes. Some indications of the relative accuracy of the results achieved in the individual states according to their differing periods between re-valuations are given later. The present aim is to show the extent to which collection of land rent as public revenue is actually used in the States and Territories of Australia.

The figure for the Northern Territory has been taken at twenty times the current rentals on the leasehold lands. This will understate the true figure, as many of the properties have their rentals revised only at long intervals and, with the development that has been taking place in recent years, will be well below the true potential.

The figures are values of the rateable property only and approximate to the capitalised market value of the site rental left with the landholder

TABLE 1

LAND VALUATION OF THE STATES

State or Territory (1)	Unimproved Capital Value (Site Value) of land (2)	Population June 1976 (census) (3)	Average land value per head (4)
	\$ Millions	—	\$
New South Wales* (1976)	25,679.9	4,914,300	5,224
Victoria (1976/77)	22,211.1	3,746,000	5,929
Queensland (1976/77)	3,949.8	2,111,700	1,870
South Australia (1976/77)	3,617.3	1,261,600	2,867
Western Australia (1976/77)	2,209.2	1,169,800	1,888
Tasmania (1976/77)	763.6	407,400	1,874
Australian Capital Territory (1976)	848.9	203,300	4,175
Northern Territory (1974/75)	183.7	101,400	1,819
	<u>\$59,463.5 m.</u>	<u>13,915,500</u>	<u>\$4,273</u>

* Includes \$7.182 millions in the Western Lands Division not organized under local government.

after paying land rates and land taxes. Hence the total unimproved capital value of the lands under private ownership in Australia at 1976 was approximately \$59,463 millions, which at five per cent, gives the annual potential site rent remaining in private hands after paying rates and land taxes as \$2,973 millions. These figures would be increased substantially if valuations were revised annually instead of over periods from one to ten years apart (see Table 2 over page).

These figures do not include the valuation of minerals for which rights to royalties are usually reserved to the state governments concerned, but they do include rates payable on mines. They also exclude a substantial proportion of holdings that are exempt from municipal rates and land taxes. These comprise properties held by the Commonwealth and state governments, religious bodies, hospitals, charities and other exempt property. The total value involved is not known for all states but is published annually for Queensland, where in 1976/77 rates foregone on exempt properties equalled 12.9 per cent of the total general revenue collected for that year. It has been strongly recommended to various commissions of inquiry that the exceptions be removed and all properties become rateable. This is necessary to prevent anomalies in treatment between rate-payers in areas of high or low content of exempt properties.

TABLE 2

COMPUTATION OF SITE RENT POTENTIAL STILL IN PRIVATE HANDS

Estimated as though the Unimproved Capital (or Site)-Value of all councils within the States had been valued simultaneously in the year 1976-77.

State or Territory	Values as shown on rate books	Re-computed as though all revalued at same date	Increase per cent
	(\$ millions)	(\$ millions)	
New South Wales	25,679.9	33,931.0	32.1
Victoria	22,211.1	30,398.9	36.8
Queensland	3,949.8	7,314.5	85.2
South Australia	3,617.3	6,810.5	88.3
Western Australia	2,209.2	3,676.0	66.3
Tasmania	763.6	1,237.6	62.0
Australian Capital Territory	849.0	925.5	9.0
Northern Territory	183.6*	240.0	30.0
Totals	<u>\$59,463.5 m.</u>	<u>\$84,534.0 m.</u>	<u>42.2</u>

* Northern Territory valuation was for the year 1974-75 and has been arbitrarily increased by 30% in line with others.

IV HOW MUCH OF THE SITE RENTAL IS
COLLECTED FOR PUBLIC PURPOSES?

State Land Tax

THE amount collected by state land taxes in Western Australia (Table 3) is greater than would appear from taking account only of the amount shown against land tax as paid to consolidated revenue funds, which is \$11.7-2 millions. There are also further amounts collected by land taxes and paid into special accounts for the purposes of Metro Region Improvement (\$2.188 millions). These bring us to the figure shown.

In Queensland, land tax is levied only on freehold lands, whereas elsewhere, states' perpetual and other leaseholds are taxable.

Land-value Rating

The revenue from land-value rating in the various States and Territories is summarised in Table 4. Separate totals are shown for the rates levied directly on the site value, as distinct from the component falling on the site rental value where the rate is levied on the composite value of land-plus-improvements. A more detailed statement, showing the various types of rating bodies and their contribution to the totals, is included as Appendix C to this report.

The principle of site value rating has been so generally accepted in Australia that 65 per cent of the municipal councils now use it as their general rate basis, although some of them supplement it with small rates on the improved value for special purposes. *Councils controlling 93 per cent of the rateable area of the whole continent now use the unimproved (site) value basis for part or all of their rate levies and have un-taxed improvements either completely or in part.* This is all the more remarkable since the system of rating on improvements was applied universally in Australia on a mandatory basis up to 1887.

A table showing the number of councils using the respective systems and the total areas under such is given in Appendix B.

TABLE 3

S T A T E L A N D T A X

State		<u>Land Tax Collected</u> \$ millions
New South Wales	.....	111.638
Victoria	.....	59.804
Queensland	.....	12.764
South Australia	.....	18.348
Western Australia	.....	13.930
Tasmania	.....	3.373
Australian Capital Territory	.....	-
Northern Territory	.....	-
		<u>\$ 219 857 m.</u>

TABLE 4

LAND VALUE RATES COLLECTED 1976/1977

State or Territory (1)	Levied directly on site value (2)	Levied indirectly on site value (3)	Levied on improvements (4)	Total rates yield (5)
	\$ millions	\$ millions	\$ millions	\$ millions
New South Wales	623.162	44.663	53.549	721.374
Victoria	149.411	143.654	191.082	484.147
Queensland	181.726	-	-	181.726
South Australia	20.456	51.292	76.850	148.598
Western Australia	54.264	20.985	31.472	106.721
Tasmania	-	13.874	32.375	46.249
Australian Capital Territory	12.098	-	-	12.098
Northern Territory	3.405	-	-	3.405
	<u>\$ 1044.522 m.</u>	<u>\$ 274.468 m.</u>	<u>\$ 385.328 m.</u>	<u>\$ 1704.318 m.</u>

Columns (3) and (4) are the estimated breakdown of the Annual Value rates (improved) into the site value and improvement value components.

Land Rent Paid to State for Leasehold Tenures

The item headed Land Revenue in the State Consolidated Revenue Fund covers the land rents paid to the State for leasehold tenures but proceeds of sales and conditional purchases of land are excluded in the tabulation below because they are proceeds from selling the assets and not continuing rentals. In addition, there are land rents and water rights payments to semi-governmental business undertakings controlling water conservation and railways, for land leased from them by private operators. They appear elsewhere in the annual reports of the public authorities concerned as part of their revenue as business undertakings. The two classes are given separately (Table 5).

These figures are minima, being the portion paid to the Consolidated Revenue Funds, but are not necessarily the total receipts since portions have been paid to other special funds. For example, part of the total revenue of the Forestry Commission in New South Wales was transferred to a special fund set apart for afforestation and re-afforestation, and part was used within the Commission.

The area held in the Australian States from the Crown under various forms of leasehold, as compared with freehold, is shown in a table as Appendix A to this report. The leasehold areas are more generally found in the rural and pastoral interior areas which have less potential than the urban lands, but there are important exceptions. Perpetual leasehold tenures are numerous in the urban areas of Queensland and the irrigation settlements of New South Wales. They embody direct recognition of the principle that the rental value of land should be collected by governments for public purposes. The level of the land rents charged takes into account that normal municipal and other rates will be paid by the holder just as they would with freehold tenure.

A partial breakdown into the main items comprising the above totals for the year 1976/77 is given at the end of this paper in Appendix C for the States concerned. That is informative as to the nature of the components contributing to the group as a whole. Some of those figures for components are drawn from a different source and relate to an earlier period.

To find the proportion of the site rent potential collected in relation to the land valuation figures shown in the section on the basic land valuations, it is necessary to exclude column (3) of Table 5 headed "Mining and Forestry Royalties". The reason is that all the columns of Table 6 relate to land in private occupation, which is rateable and therefore linked with the valuation figures shown, but this does not apply to the column in question. The figures there are a direct addition to the site rental potential of the State concerned but are in respect of rights reserved to the State, and are not included in the valuations for land-value rating purposes.

TABLE 2 COLLECTIONS UNDER LAND REVENUE YEAR 1976/77

State or Territory	Land Rents	Mining & Forestry Royalties	Total
(1)	(2)	(3)	(4)
	\$ millions	\$ millions	\$ millions
New South Wales	20.157	60.900	81.057
Victoria	16.904	47.700	64.604
Queensland	10.594	50.800	61.394
South Australia	3.200	3.300	6.500
Western Australia	5.700	57.300	63.000
Tasmania	0.500	6.700	7.200
Australian Capital Territory	3.500	14.000	17.500
Northern Territory	1.000	0.400	1.400
TOTALS	\$ 61.555 m.	\$ 241.000 m.	\$ 302.655 m.