

WHAT CHANGES SHOULD BE MADE IN THE TAXATION SYSTEM OF THE COMMONWEALTH OF AUSTRALIA ?

The Land Values Research Group Statement
of Evidence for presentation to the Common-
wealth Taxation Review Committee of Inquiry
April, 1973.

It is now reprinted for use with the National
Summit on Taxation, 1985 for which the prin-

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* Only Appendix No. 2 is included in this printing. The others will be supplied separately on request.

THE TERMS OF REFERENCE OF THE INQUIRY

1. The functions of the Committee of Inquiry are —
 - (a) to examine and inquire into the structure and operation of the present Commonwealth taxation system;
 - (b) to formulate proposals for improving the Commonwealth taxation system, either by making changes in the present taxation system, abolishing any existing form of taxation or introducing new forms of taxation; and
 - (c) to report to the Treasurer of the Commonwealth accordingly.
2. The Committee of Inquiry shall, in carrying out its functions, do so in the light of the need to ensure a flow of revenue sufficient to meet the revenue requirements of the Commonwealth and have regard to —
 - (a) The effects of the present Commonwealth taxation system and of any proposals formulated by the Committee, upon the social, economic and business organisations of the community and upon the economic and efficient use of the resources of Australia; and
 - (b) The desirability of the Commonwealth taxation system being such that, so far as is practicable, there is a fair distribution of the burden of taxation, and revenue is raised by means that are not unduly complex and do not involve the public or the administration in undue difficulty, inconvenience or expense.
3. For the purposes of these terms of reference, the present Commonwealth taxation system shall be taken to be the system under which the Commonwealth raises revenue by means of the following forms of taxation: income tax; sales tax; estate duty; gift duty; duties of excise imposed for the purpose of raising general revenue, and duties of customs that correspond with duties of excise so imposed."

**LAND VALUES RESEARCH GROUP SUBMISSIONS
TO THE COMMONWEALTH TAXATION REVIEW
COMMITTEE OF INQUIRY**

PART 1 — INTRODUCTORY

STARTING FROM FIRST PRINCIPLES

1. Shortly after the announcement of the impending inquiry into the overall operation of the taxation system of the Commonwealth Government of Australia and long before the announcement of its terms of reference, the Victorian Employers' Federation issued a report the main points of which were published in "The Australian Financial Review" (17/4/72) under the heading "Tax Inquiry should start from first principles".

2. It said that a mere patching of existing legislation would not produce an efficient system. Any review should not (as is sometimes suggested) be confined to a study of income tax alone. All forms of taxation — and for that matter, all forms of social service benefits, subsidies, etc. should be considered together.

3. Any new system evolved would naturally have to be sufficiently flexible so that it will be able to meet the changing needs of Governments for a period ahead. The object of the inquiry should be to report on various fundamental issues — for example, to what extent direct rather than indirect taxes are the most suitable for Australia. The myriad of minor adjustments parties seek in various acts should be left for later inquiries.

4. These views are endorsed because they appear to us sound and to express simply and adequately the course which responsible people within the community hope will be followed in the inquiry. It is noted that the terms of reference now issued are broad enough to allow the inquiry to follow this course.

BASIC CRITERIA FOR TAXATION SYSTEMS

5. An important contribution in the report cited above was a list of criteria which it suggested be applied in deciding which forms of tax collection are socially desirable or harmful. These criteria are listed below together with an

additional one of our own. The order has been varied to collect together in four groups those of a closely related nature. We agree with and apply these criteria later in these submissions in comparing the merits and demerits of various forms of taxes.

GROUP A

The taxation system should encourage economic growth and in particular should preserve the incentives to work and to save.

All taxes should be anti-inflationary in effect.

GROUP B

The Taxation system should be as simple as possible.

The costs of collection should be kept as low as possible for both governments and taxpayers.

The tax system should have regard to the convenience of the taxpayers.

The one set of circumstances should not attract more than one lot of taxation.

GROUP C

The tax should be certain in operation — so as to give the least opportunity for tyranny or corruption on the part of officials, and the least temptation to lawbreaking and evasion on the part of taxpayers.

The tax legislation should minimise the ability of taxpayers to reduce or avoid taxation by re-arranging their affairs.

Rules capable of arbitrary interpretation and discretionary power conferred to tax-levying authorities should be kept to an absolute minimum.

GROUP D

Taxation should be equitable as between taxpayers in similar positions.

Taxation bases should have regard to ability to pay.

WHAT ARE THE MOST IMPORTANT TAX CRITERIA?

6. All of these criteria listed are important even on their face value as stated. But some are more over-riding than others in their degree of importance. In this respect it is submitted that the two criteria in the first group A are paramount and justify their choice as the starting point for discussion from first principles.

7. It needs no elaborate argument to show that the first is a vital one. It is axiomatic that taxation forms which encourage economic growth and preserve the incentives to work and save augment the stock of goods produced in the community out of which all taxes must ultimately be drawn. Taxation forms which discourage economic growth **minimise** the potential revenue. And if governments seek to draw the same amount of taxes from the minimised total of goods as they could get easily and without hardship to taxpayers under the maximised conditions, there can result hardship and injustices from what (under these minimised conditions) become onerous or extortionate demands which also offend against other criteria in the list.

8. Almost equally important is the second requirement that all taxes be anti-inflationary in nature. Indeed this may well be the more important since — while failure to conform to the first requirement would produce a generally lower standard of living than could otherwise be obtained — this might not necessarily involve acute injustice in treatment between individual taxpayers. Yet the demonstrable fact that current taxes in Australia generally have become highly inflationary in their effects produces an obvious and often acute reduction

in the standard of living of a substantial proportion of the Australian taxpayers who have in the past enjoyed higher standards and who — simply as a result of the debasement of the currency resultant from inflationary taxes — find the purchasing power of their income progressively reduced.

9. The position is most acute with pensioners and those on superannuation or other fixed incomes, who find their livelihood progressively eroded without being able to do anything effective about it. These folk may be unable to pinpoint which particular taxes are responsible or what can be done about rectifying them. But they can see clearly that, whereas other people in employment as working units within the community have progressive adjustments to their incomes to mitigate the effects of inflation, these retired persons on fixed incomes are being sacrificed to other sections of the community. Such people can only expect progressive and rapid loss in the real value of their incomes and other assets in the remaining years of their lives.

10. These first two criteria are not really separate but different aspects of the first one which really embraces the second. For taxation which is to encourage economic growth and preserve the incentives to work and save must be of a non-inflationary or anti-inflationary form to achieve those ends. To the extent that they are inflationary any taxes will fail to comply with the objective of providing the incentive. For this reason our submission treats the two propositions together.

11. But as it is generally recognised that inflation is increasing rapidly in Australia and threatens the future prospects of all sections of the community this submission is first directed to the inflation aspect.

The effects of the present Commonwealth taxation upon the social, economic and business organisations of the community and upon the economic and efficient use of the resources of Australia.

(Vide Term of Reference No. 2(a))

PART II — EFFECTS OF TAXATION IN RELATION TO INFLATION, PRODUCTION AND INCENTIVES

THE NATURE AND EXTENT OF INFLATION IN RELATION TO TAXES

12. The following quotations from encyclopedias give in tabloid form an adequate defi-

nition of taxation; inflation and the varying forms it can take. The first two are from Hutchinsons "Twentieth Century Encyclopedia" (1961). The third is from "The Modern World Encyclopedia" (1935).

Taxation:

(1) Taxation is the part of the national revenue raised by compulsory dues and charges, as distinct from that derived from public property. Taxes are classified as direct or indirect, according to whether the tax is borne by the payer as in income tax, or is passed on by him in the form of an increase in the price of a commodity, as in the taxes on tobacco and beer. Indirect taxation is often criticised on the grounds that it bears more heavily on the poorer than on the richer classes and in recent years the proportion of the revenue raised by direct taxation has greatly increased. Proportional taxes are those assessed in proportion to the payer's income or property, progressive taxes those in which the percentage paid increases as income increases, and regressive taxes those in which it decreases. A tax in rem is one paid upon an object irrespective of its owner's circumstances, e.g. a motor licence."

Inflation:

(2) "Inflation may be defined as an expansion of money or purchasing power relative to the supply of goods to purchase. With inflation there is more money in proportion to goods, so prices tend to rise, and the purchasing power of the currency unit to fall. Inflation, as producing high prices, is favoured by business-men, as long as it does not get out of hand, but adversely affects pensioners, rentiers, and others living on fixed incomes, besides the great mass of workers. Inflation is most usual during and immediately after a war."

(3) "Inflation is an increase in the amount of money in circulation. The term is also widely used to cover an increase in the amount of credit. It may arise from several causes. The most obvious is that exemplified by Germany after World War I, where notes were turned out by the printing presses of the Government so fast that the quantity of money in circulation rose by leaps and bounds, multiplying ever faster and faster, while prices rose higher and higher and the money became more and more worthless. Similar, though much less violent inflation took place in a number of countries after the War. The currency had no gold backing, and was manufactured without any relation to the amount of gold reserves. Quite a different type of inflation took place in the United States in the years 1922-29. Here

there was no appreciable increase in the amount of actual money in circulation, which was backed by gold and convertible into gold. In the United States there was a vast increase in bank credit. Though this did not have the effect of raising prices of commodities to dizzy heights, it did affect the prices of stocks and shares, bonds and real estate. Prices of these did not multiply as prices of commodities did in Germany, because the worth of and confidence in the currency did not go down as the quantity of credit went up, but it did cause a stupendous boom in common stocks and real estate."

That boom was followed by a crash and the world wide depression of the 1930's.

13. These brief quotations are directly relevant to the present position in Australia and many other countries of the world. From them it will be recognised that both these types of inflation are now current and escalating here and elsewhere. In Australia particularly, since 1966/67 we have now embarked on a sharply accelerated course both of inflation of the note issue and the boom in real estate. Before we make submissions on the relationship of various specific forms of taxation to the inflation problem it is important to recognise the magnitude to which that problem has already grown as the result of the existing taxes collectively.

OVERALL EXTENT OF INFLATION IN AUSTRALIA AS SHOWN BY THE CURRENCY

14. The growth of inflation in Australia over the last 11 years is shown year by year below, the basic figures being taken from the monthly and annual returns published by the Reserve Bank of Australia. The full table of component items is given in the Appendix 1 with this submission in view of its importance but only the vital columns respectively showing the "Notes and coins in the hands of the public" and the "Total Volume of money" are shown below from June, 1961, onwards.

The figures shown plus or minus between the lines for the years are respectively the annual change between the years concerned and the progressive change since the base year ended June, 1961.

Notes and Coins in the hands of the public				Total Volume of Money		
Average of weekly figures for:	\$ millions	Annual Change %	Progress Total Increase %	\$ millions	Annual Change %	Progress Total Increase %
June, 1961	797	+ 1.6	+ 1.6	7301	+ 7.4	+ 7.4
" 1962	810	+ 0.9	+ 2.6	7845	+ 8.5	+ 16.6
" 1963	818	— 0.3	+ 2.2	3906	+12.1	+ 30.8
" 1964	815	— 0.1	+ 2.1	9556	+ 8.1	+ 41.5
" 1965	814	— 3.8	— 1.7	10337	+ 5.8	+ 49.8
" 1966	783	+12.6	+ 10.6	10938	+ 8.1	+ 61.9
" 1967	882	+ 9.2	+ 20.9	11884	+ 8.2	+ 75.3
" 1968	964	+10.4	+ 33.6	12805	+ 9.1	+ 91.3
" 1969	1065	+11.4	+ 48.9	13974	+ 6.1	+103.2
" 1970	1187	+12.5	+ 67.6	14837	+ 6.8	+117.1
" 1971	1336	+ 9.8	+ 84.0	15851	+10.4	+139.8
" 1972	1467	+16.0	+113.5	17508	+25.6	+201.3
" 1973	1702			22001		

* 1973 figures were not available at original submission but added since.

15. The notes and coins in the hands of the hands of the public are the real money content included in the second tabulation headed "Total volume of Money". They serve both functions of money as (1) a measure of value and (2) as a medium of exchange. They are directly indicative of the extent of inflation of the currency. The other components of what is called "the volume of money" do not fulfil the monetary requirement of serving as a measure of value. They do, however, serve as a medium of exchange and the combined totals show the claims existing against the goods produced in the community.

TWO PERIODS OF CHANGED CONDITIONS

16. The table above shows two distinct periods of suddenly changed trends which call for comment. From years ended June, 1961, to 1966 inclusive, the note issue was held stable with little change from year to year and, in fact, the progressive change to that end date was a small decrease of 1.7% in the notes in the hands of the public. In this period there was no debase-ment of the currency through the note issue.

17. During the following years from June, 1966, up to 1972 inclusive, there was a sudden progressive and compounding increase from year to year averaging 10.9% annually in the notes and coins in the hands of the public. Whereas over the first five years in the table there had been no increase, by the end of the

next six years to June, 1972, the note issue had escalated by 84%. Accompanying this there was a progressive boom in land prices.

(Section 18 has been deleted).

OBSERVED INFLATION ABOVE CAUSED BY TAX POLICIES

19. There is a direct causal relation between taxation policies currently applied and the serious inflation which has already developed and is progressively worsening as shown above. It will be discussed later in more detail but it is pointed out now that the period of five years of virtually unchanged note issue was one in which there was an overall reduction in sales taxes from an initial average tax rate of 16.5 per cent reducing down to 13.6 per cent over the goods paying sales tax. This tended to restore or maintain the purchasing value of money.

20. The next six years of escalating inflation were marked by two notable changes. First was the reversal of the previous policy of lowering sales tax rates. Instead they were progressively increased in 1968/69 and 1970/71 to reach an average tax rate of 15.7% for 1971/72. This was almost as great as had operated in 1960/61 before the reductions took place. It directly raised the retail price of the goods subject to the tax by 3%.

21. The second pertinent observation is that this escalation in the notes in circulation was accompanied by a growing boom in land prices, the effects of which are reflected in the

growth of bank deposits which make up the other components of the final column headed "Total volume of money" in the table. The land price boom peaked and broke in rural areas around 1968. It is still escalating in the metropolitan centres of the various States. The deposits in trading banks and savings banks (which together with the notes and coins make up the "total volume" of money) are largely the proceeds of sales of property at these inflated land prices and may themselves become the means for further investment in land.

22. The prices paid for land in major cities over the last two years have progressively escalated beyond the short term earning power of the sites, in many cases. In this the position is strikingly similar to that described in the second quotation cited relative to the boom culminating in the depression of the 1930's.

23. This land price boom threat is not the result of any one tax alone used by the Commonwealth Government. It results from the **absence of any form of land value tax at Commonwealth level which would serve as a brake on the investment of funds into landed property as a hedge against the debasement of the currency mainly caused by the incidence of its taxes collectively. Unless such a brake is supplied as a result of this tax review the consequences may be catastrophic. The process has already driven the price of home sites to levels which are making it impossible to undertake home purchase.** This arises from the higher land price and the resultant mortgage needed at crippling interest rates, which together exclude increasing proportions of potential homeseekers from the home-purchase market. Later in this submission we make proposals which would provide the necessary brake to remove this danger..

HOW CURRENT FORMS OF COMMONWEALTH TAXES DEBASE THE CURRENCY AND CAUSE INFLATION

24. The process by which current taxation policy is doing this is a combination of the following components:

(a) The printing and issue to the public of legal tender notes and coins at a growth rate greater than that of the adult population which uses them;

(b) The use of forms and levels of taxes which are inflationary by raising the prices of goods to consumers;

(c) The use of forms and levels of taxes which channel investment funds away from production of goods and turn them instead into the sterile holding of vacant or under-developed lands;

(d) Failure to make adequate use of anti-inflationary forms of taxes which maximise the supply of goods and services and thus give greater value to money.

25. Changes in the quantities of notes and coins in circulation with the public can indicate the existence and extent of inflation but are effects and not causes of it. Information from the Reserve Bank of Australia shows that the issue and withdrawal of currency is automatic in its operation. The note issue is free to fluctuate in response to public demand which makes itself felt through the trading and savings banks. Hence there are no limitations imposed on the size of the Australian note issue nor are they needed. At times such as Christmas and Easter, the public's demands for notes exceed the amounts banks can supply from their current holdings and it is necessary for them to obtain additional notes from the Reserve Bank, paying for them by drawing on their bank accounts with the Bank. At other times needs contract, surplus notes flow back through the banks to the Reserve Banks and circulation decreases. The normal annual fluctuation of notes within the year from June to December ranges between 10 and 25 per cent.

26. However, apart from the normal fluctuations, with increasing resort to inflationary forms and levels of taxes the operation of supply and demand through the market and the banking system can automatically result in increasing the supply of notes in circulation. With the same number of exchanges of goods in the market at higher prices more money tokens would then be needed, drawn by the banking system, and so increase the currency in circulation. Part of the heavy inflation of the note issue seen on page six in the table from 1966/67 onwards was due to this cause (e.g. the increase in sales tax levels vide Appendix 4). Change to forms of taxes which figure less in the prices of retail goods would reverse the process or prevent further inflation.

27. The extent to which the processes (b), (c) and (d) above have operated to bring inflation in Australia to dangerous levels is seen in the following tabulation of key economic indicators.

OTHER KEY INDICATORS SHOWING THE EXTENT OF INFLATION IN AUSTRALIA

28. The tabulation below shows the average annual percentage growth rates for some key indicators of development from which the content of inflation can be clearly seen. Only the resultant growth rates per annum averaged over the 11 years from 1960/61 to 1971/72 (in most cases) are shown. The details of the basic figures, sources and computations are given in Appendix No. 2 with this submission.

Item	Unit of measurement	Averaged Annual Growth
1. Indicators based on quantities without inflation content		
Population (Millions)		2.1%
Wage and Salary Earners (Millions)		4.0%
Wheat (000's bushels)		1.4%
Other grain crops (000's bushels)		3.4%
Wool (000's lbs.)		2.3%
Cattle (000's)		5.2%
Sheep (000's)		0.6%
Total whole milk (000's gallons) for all purposes		1.4%
Total fresh meat (tons)		6.6%
2. Monetized items with inflation content		
Consumer price index (all groups)		3.3%
Wholesale price index (for materials used in homes)		4.5%
Note issue in public hands (\$ million)		7.6%
Retail sales (except motors) (\$ million)		8.5%
Factory wages and salaries (\$ million)		8.5%
3. Indicators with high investment content in landed property or proceeds of its sales.		
Deposits of public with Trading Banks (\$ million)		11.7%
Savings Banks (\$ million)		15.7%
Conveyances N.S.W. (\$ million)		19.6%
Mortgages registered N.S.W. (\$ million)		25.0%
Mortgages registered Vic. (\$ million)		15.7%

4. Municipal land valuations for rating

New South Wales (whole State) (\$ mil. UCV)	18.4%
New South Wales (Metro.) (\$ mil. UCV)	22.8%
Victoria (whole State) (\$ mil. CIV)	18.1%
Queensland (whole State) (\$ mil. UCV)	19.3%
West Australia (UCV rating areas) (\$ mil. UCV)	43.8%*
Tasmania (whole State) (\$ mil. UCV)	11.1%*

* These items are averaged over less than 11 years (see Appendix 2).

INFERENCES FROM THE ABOVE TABLE

29. (1) The natural growth rate which could be expected in the notes in circulation with the public without inflation would be roughly the same as the growth rate for the adult population using them. The average annual growth rate of the "wage and salary earners in civilian employment in Australia" was 4.0 per cent over the 11 years between June, 1961 and 1972. Hence only the excess above four per cent annual increase could be regarded as the content due to inflation.

(2) The excess above this level, as shown by other items in the last three groups, approximates to their content of inflation. The inflationary growth rate for these items during the period from 1966/67 onwards has greatly increased above that shown for the whole period. The figures for that intermediate year are shown in Appendix No. 2 from which the more recent growth rate can be calculated if desired.

(3) The items in Group 2 are linked with the manufacture or sale of goods and contain a substantial inflationary tax content. **Their growth rate of up to 8.5% is approximately twice that of the natural growth rate to be expected without inflation.**

(4) The items in Group 3 are less closely related to the production and sale of goods and are strongly tied to investment in or proceeds of disposal of landed property. The deposits of trading and savings banks are in this class **with growth rate three or four times that of the natural growth rate to be expected without inflation.**

(5) The conveyances and mortgages registered for landed property as shown for N.S.W. and Victoria show a growth rate from five to six times the natural rate which could be expected without inflation. To the extent that these mortgages are incurred to enable new building to take place they are beneficial in increasing the stock of goods in the community against which the currency is the measure of value. But to the large extent that they are investments in under-developed or vacant land as a mere hedge against the fear of inflation they are positively harmful to the community. They build up a structure of debt with high interest repayments which (in the event of a recession) could lead to widespread loss and bankruptcy for many.

(6) The growth in municipal land valuations for rating purposes, as they appear on the books for councils, much understates the real extent of the escalation in land prices. In New South Wales and Victoria they are re-valued at intervals from a minimum of four and up to six years apart. In both States there has been an escalation in land prices over the last four years in metro. areas. Yet the current year's totals for rating will only contain a small proportion of the properties revalued at recent higher levels. In Victoria, although a general revaluation of the metropolitan land value was returned at the end of 1972 the values included in it are actually as at the base date December, 1969. The valuations shown for rating in council records immediately before the new valuation was returned were between four and seven years behind the market prices.

(7) The growth rates of groups 3 and 4 in the table show to what extent investment in landed property is taking place in an endeavour to preserve the value of assets against the continuing debasement of the currency resultant from current taxation policies. **They underline the need for the provision of an adequate form of land value tax in the Commonwealth taxation structure to make investment in and holding of under-developed land less attractive than investment in productive use of land.**

HOW INFLATION IN AUSTRALIA COMPARES WITH THAT IN OTHER COUNTRIES

30. In Appendix No. 3 to this submission is a table published by the First National City

Bank of New York, listing 50 countries according to their performance from 1960 to 1971 for depreciation in the value of money. It is of interest to note that up to 1965 only seven of the 50 countries had a better record than Australia showing less loss in value of their currency. But by 1970 we had dropped to equal 10th place with our currency having only 78 per cent of its 1960 value. And in the extra year, 1971, we had dropped to 22nd place among the 50 listed. It is interesting to note that the recent performance of the "less developed countries" listed in most cases is better than the "industrialized countries." The calculations of the depreciation of money are made reciprocally from the rise in official cost-of-living or consumer price indexes.

WHICH FORMS OF TAXATION ARE INFLATIONARY — AND WHICH ANTI-INFLATIONARY?

31. This should be the key consideration in arriving at a suitable and soundly based tax structure. The question might equally be re-phrased to ask which forms of taxation provide incentives to maximise production of goods in the community? It will be found that the answers to the one set of questions are the same as the other because they are, in effect, the opposite sides of the same coin.

32. It is the production of goods in the community which gives value to and holds value in the currency. If the supply of goods decreases there will be inflation, the extent of which will depend on the reduction in supply. The key to maximise the supply of goods available in the community is to provide and leave with those who take part in production, sufficient monetary incentive to continue and augment the supply. Those types of taxes which provide this incentive are anti-inflationary. Those which lessen incentive — or destroy it — are inflationary in their effect.

33. The common cause of governments and taxpayers alike should be to maximise the stock of goods available in the community. It is from that stock that their respective shares are drawn. If that stock diminishes absolutely both government and taxpayers will be worse off and there will be social unrest about how to share a diminishing cake. Even though the supply of goods increases the position will be worsened if its growth is not more

rapid than the growth of population. Taxes which work to maximise production of goods in the community are anti-inflationary. They provide added value in the currency. Those tax forms which hamper or discourage supply of goods are inflationary. Taxes which are passed on to the consumers in higher prices tend to reduce demand for (or ability to buy) the types of goods involved.

34. The stock of goods available in the community is obtained by the processes of production. These are essentially the application of human labour to land or the modification of the products of land into new forms. The processes are carried out and the products stored or sold in buildings on land sites. The transport used in the process of production and distribution at all stages to the consumer uses land and operates from terminals on land sites. The availability of land sites for all these purposes is an essential element in the chain which ends with the goods finally in the hands of the consumer.

35. Land Tax forms which tend to increase the supply of land available on the market, at the most suitable locations, for the least outlay of savings, encourage and facilitate the maximising of the stock of goods which it is our common interest to promote. Conversely, tax forms which tend to channel investment funds into the purchase and holding of vacant land or under-developed properties, as a hedge against inflation, tend to worsen and intensify the harmful effects of that inflation they seek to guard against. Their actions place new obstacles in the way of the beneficial productive processes which work against inflation. They have driven land prices to levels at which purchase and use of sites for productive purposes is becoming uneconomic. Such taxes are in the highest degree inflationary. Their evil effects can be seen in the relative growth rates of land prices and other key indicators shown under paragraphs 28 and 29 of this submission.

36. Wage and salary increases paid to those engaged in production of goods are sometimes

blamed as causes of inflation. Wages and salaries are not forms of taxation and hence are outside the terms of reference of this inquiry. Nevertheless it should be said that the views which look to them as causes of inflation are mistaken and harmful in turning attention from the real causes and their remedies. Rises in wages and salaries are **effects of inflation which has already occurred** as results of inflationary taxes. The rises in wages and salaries are only given long after the debasement in the currency has occurred and do no more than momentarily restore previous relativity at best. Almost invariably, by the time they are received the continuing march of inflation has further eroded the purchasing power of their gains and the process of agitation is resumed. It is true that the rises gained from arbitration will increase the money tokens in circulation and lead to further debasement in their value. But this simply occurs because the full effect of a ten per cent annual increase in the notes in circulation is not immediately reflected in full in the price structure. It takes a relatively long time before the full effects of the initial stimuli work their way through. In the meantime other sections of the community have been seeking to preserve their own resources by investing them in property on such a scale as may have dire consequences when a reckoning comes. It would be unreasonable to expect that those engaged in producing the goods should be expected to accept the whole reduction in their living standards due to the inflationary currency and tax policies followed by governments. There is a danger that sooner or later industrial strike action, in desperation at loss of purchasing power, may curtail the production of goods on such a scale as to cause far more serious inflation than ever. For these reasons it is sounder to hope that this inquiry will result in such changes in the tax structure as to replace the inflationary forms of taxes with non-inflationary ones and so allow stability to be achieved.

PART III — A NEW LOOK AT TAXATION

37. At this point the Committee is invited to take a new look at the various alternative forms of taxation open to the Commonwealth Government, whether now used or not. This would be aimed first to see how they stand

under the Group A Tax criteria in paragraph 5 of this submission. That is to say whether they are anti-inflationary in nature, encourage economic growth and preserve the incentives to work and save. These are submitted to be

considerations of primary importance to the choice of the future taxation system. The following gives a simple and clear-cut classification of these alternative forms of taxes according to the fundamental concept to which they conform. It may prove helpful in deciding their relative merits and place in the future Commonwealth taxation structure.

38. The alternative types of taxes open to governments may be classified broadly into three types, as listed below:

Type 1 — Taxes based on POTENTIAL
whether availed of or not.
Land rates, land taxes and land rentals.

Type 2 — Taxes based on extent of USAGE OR PRODUCTION
Income taxes, sales or turnover taxes, value added taxes, net worth taxes, estate duty, customs and excise duties, gift duties, payroll tax, wheat tax, wool tax, poultry industry levy, petrol taxes. Taxes for public utilities included in the charges made by the postal department, railways, tramways, buses, electricity and gas undertakings; stamp duty charges.

Type 3 — Fixed charges unrelated to use or value
Poll taxes, broadcasting and TV licences, motor car and drivers licences.

The items listed are not exhaustive, but cover the main ones. Some of them are used by State Governments and not the Commonwealth.

TYPE 1 TAXES

39. Of all these taxes only the first type based on site potential (whether availed of or not) act as incentives to proper land usage. They charge a fixed sum annually based on its value whether the site potential is developed or not. The land tax charges provides an inbuilt "cost-of-holding-land-unused" and hence an incentive to make it earn by usage, at least enough to cover the tax. There is also full incentive to maximize production beyond that point in the knowledge that further development will

be tax-free. This result is in accordance with the general good of the community which depends upon abundance. It is also anti-inflationary since the maximising of the stocks of goods available tends to maintain or increase the value in the currency.

40. By making it more profitable to develop the potential of land and less profitable to invest in and hold land vacant or under-developed as a hedge against inflation, such taxes tend to make it possible for existing and prospective new land users to obtain sites with less capital outlay. Holders of such under-developed holdings, unwilling or unable to make productive use of them, when faced with an adequate annual tax for holding land under-used will be increasingly willing to put them on the market and invest the proceeds in more productive channels. Again the process will work in an anti-inflationary direction.

41. The various State and Local Governments have applications of these types of taxes. But since 1951, when the Commonwealth Land tax was abolished, there has been no application of this principle of taxation based on site earning potential on a Commonwealth-wide basis. Small applications of the principle are operative in the Australian Capital Territory and the Northern Territory, both under the control of the Commonwealth. These applications take the form of local rates and land rentals based on the land value in respect of the leasehold tenure operating within those territories.

42. The lack of a substantial application of land taxation at Commonwealth Government level is a serious blemish in the present taxation system. Although many forms of taxation used by the State Governments are also inflationary, the major responsibility for causing and rectifying inflation lies directly with the Commonwealth Government.

43. It is therefore most anomalous that the Commonwealth Government whose tax forms and policies are primarily causes of that inflation — has no current application of the land value taxation principle which is the main (if not the only) form of tax which is anti-inflationary and could provide the corrective for it. In this the present Commonwealth tax system may be likened to a powerful motor car in accelerating motion towards inflation, but not equipped with a system of brakes.

44. Land value taxation at an adequate level would provide the necessary brake and should be given a major place in the future taxation system of the Commonwealth at the expense of Type 2 forms of taxes.

TYPE 2 TAXES

45. By contrast the taxes based on the extent of usage or production (as listed under this heading) are regressive in nature and tend to restrict production or use of the services, since the tax-charge becomes proportionately higher with increased use. They tend to **minimise** development by providing an in-built tax-penalty against it. **This result is against the general good of the community since it tends to produce scarcity and low standards of living. Increases in these taxes are inflationary in nature. They also tend to reduce the public revenue available to the government from them below that expected pro rata to the increase in the tax-rate.**

46. These taxes based upon the extent of usage or production achieved are the most commonly used ones in many countries and yet they have the inherent defect of being potentially self-destructive of the flow of revenue to the government which is the objective in their imposition. Their revenue raising capacity falls off after a certain point is reached and the law of diminishing returns operates. The evil inherent in the principle becomes most apparent in the public utilities such as the Postal Department under the Commonwealth and the Railways and Tramway Departments in the States. In all of these the practice being followed is to expect the user of the service to pay the whole of the capital and operating costs in charges for mails, telephones, freights and fares as though the actual users of the service were the only beneficiaries from its existence. These charges are not described as taxes but a high proportion of them are essentially taxes in nature.

47. With all of them the taxation component has reached the point of curtailing usage of the service. The position can be foreseen where a progressively reducing number of users are expected to pay progressively increasing charges until the systems break down. This is the current position facing State railways, where successive increases in charges result in reduction of customers. The same experience is met within the Postal Department where such important organisations as

the Royal Auto Club of Victoria found it more economic to discontinue using the postal mail service and make private arrangements to distribute its monthly journal to subscribers in that State.

48. Basically, the problems faced by such bodies arise because the users of the service as such are being expected to pay more than they should for it. They can reasonably be expected to cover the annual operating costs of the services. But the assumption that they are the only beneficiaries from it and should be expected to pay the capital costs as well is wrong. The existence of these public utilities available for use increases and maintains the land values over the State. Landholders as such should be expected to meet their annual share of the capital costs by a rate on land value whether they use the service or not. Payment of such a rate does not become an added burden upon land use because its effect is to reduce land price. In a growing economy where we depend on land use for production this is most important. It reduces the amount of funds required for investment in land and reduces the prices charged for services. Simultaneously, charges to the users of the services should be correspondingly reduced across-the-board as part of a package deal.

49. All the tax forms listed under Type 2 share the general objections raised against taxes of this type, but they vary widely in their inflationary effects and how they stand under the other tax criteria. The net worth tax for example has within it some elements of the taxes based on potential in that the value of the land is one of the components used in arriving at net worth.

50. Of these taxes based on the extent of usage or production the indirect forms, such as sales tax (and their variant the value added tax), customs and excise duties, are the most harmful and inflationary and therefore most objectionable. The extent to which they raise prices to the consumer is approximated below for the sales tax and customs duties.

Sales Tax

The total wholesale value of goods subject to this tax for the year 1971/72 was \$4,327 million and the tax payable was \$679 million, the average rate of duty payable on the taxable goods being 15.68 per cent. This is initially payable by the wholesaler who recovers it

from the retailer with his added mark-up on the tax outlaid from his working capital. Similarly the retailer recovers it from customers, again, with his profit on the amount he has outlaid in tax. Assuming 25% as the profit margin of wholesaler and retailer the amount by which the prices for these goods would be increased is not the original tax of 15.68% but approximately 24.5%. The \$679 million received in tax by the government will have inflated to approximately \$845 million to the consumer.

Customs Duties

The total value of dutiable imports cleared by customs in 1969/70 was \$1,779 millions on which \$407 million was collected by the government in duty, the average rate of duty being 22.9%. The importers initially paid the tax and recovered it from the retailers with their mark-up on the \$407 millions they had outlaid in tax. The retailers in turn passed it on to the consumer with their mark-up on the tax added. Again assuming their profit margins at 25% the original duty of 22.9% imposed would have become 33% by the time the goods reached the consumer. The \$407 million received in tax by the government will have inflated the prices to the consumer to about \$636 million.

Excise Duties

The amount paid in excise duties in 1969/70 was \$939 million. On the same assumption of profit margin as before the tax would inflate the retail price to about \$1,450 millions.

Income Tax

This direct tax absorbs a high proportion of the taxable income of companies engaged in production. The minimum tax-rate for the income year to 30th June, 1969, was 30% of taxable income up to \$10,000 for private companies and 40% for public ones, rising to 45% for higher taxable incomes. This can have an important effect on the viability of marginal concerns and the ability or willingness to spend further capital on replacement, modernisation or further development generally. It will affect price levels to the extent that supply of goods will be checked unless or until prices in the market rise to make production economic. But income tax does not have the multiplier effect into retail prices

between wholesaler and retailer on the tax paid as happens with sales taxes, value added taxes, customs and excise duties. It is therefore less inflationary than those indirect tax forms. The revenue yielded by company income tax in 1969/70 was \$1,151 million. Apart from this, personal income taxes upon the employees of companies in industry have an indirect effect upon their operations as unions are increasingly making their claims for wage increases include expected rises in their income tax.

Estate Duty

This tax does not fall on current production but upon the wealth accumulated from past production and land ownership up to the death of the owner. But it can have harmful effect in causing the break-up of economic holdings to meet the tax. The smaller holdings resultant from this in many cases are less economic. There is great dissatisfaction about such taxes. This could be removed by the substitution of a land value tax and abolition of the estate duty. The land tax would thus become in effect a pay-as-you-earn form of estate duty which would leave the holding intact as a working unit on the death of the owner. Revenue yielded in 1969/70 was \$71.3 million.

Gift Duty

This tax does not fall on current production but on wealth already accumulated from it. It is therefore not inflationary. It is of comparatively recent introduction and its purpose is mainly to remove the incentive to evasion of the estate duty by making gifts before the taxpayer dies. Its existence is a direct testimony to the widespread dissatisfaction about estate duty. Revenue yielded in 1969/70 was \$8.6 million.

Payroll Tax

This is a direct tax upon industry added to its normal costs of operation. It increases the prices to wholesalers, retailers and consumers by much more than the government receives in revenue from it. It has the same multiplier effects as sales tax and other indirect taxes. It is onerous and costly to industry and harmful to the economy. It is not now used in the Commonwealth Government tax structure, having been passed to the State governments.

Value-added Tax

This is now used in many countries in Europe and has been suggested for Australia. It would be a more disastrous form of sales tax than now used here. It would be more highly inflationary and harmful to the economy. Where the present sales tax is collected from wholesalers only, the value-added-tax version would be charged four, six or even ten times between the raw materials stage and when the goods are bought by the consumer. The cost of the multiplied calculations and paper work is passed on and the price of goods rises higher and higher. The multiplication many times over of the points at which payments are made to the government opens up further possibilities of skulduggery and evasion on a wide scale. It was reported that Italy's cost of living was expected to rise by 5% in January this year when the value-added tax was to be introduced. Also that 2,000 small businesses had closed in Vienna within the last three months because Austria's new value-added tax was too complicated. Commenting critically on this tax in "The Herald", Melbourne, (13/2/73) the Secretary of the Victorian Taxpayers' Association, Mr. Eric Ristrom, made the following apt statement even more widely applicable to indirect forms of taxation generally.

"My view is that taxpayers would be better off if they had to pay higher direct tax which they could see, then protest about, rather than be hit harder in the pocket by this form of taxation.

"Politicians are being tempted to introduce value-added-tax which would be so disguised in higher retail prices that the manufacturers and retailers would get all the blame."

TYPE 3 TAXES — FIXED CHARGES UNRELATED TO USE OR VALUE

51. The only such tax of general application by the Commonwealth at present is broadcasting and TV licences. This tax, like poll taxes applied and discarded in the past (at least in developed countries) offends against the generally accepted tax criteria in Group D of paragraph 5 of this submission. It has no regard whatever to ability to pay, the sum levied being the same to the poorest as the richest taxpayer. Its main merit to the governments is that the sum raised in this case is substantial

at \$48 million in 1969/70 and evasion is difficult. Extension of this licensing practice to other items is unlikely on any wide scale because it would prove intolerable to taxpayers, costly to apply, give incentive to evasion and produce little revenue.

OTHER TAX CRITERIA

52. In this submission primary consideration has been given to the criteria in Group A of over-riding importance in the choice of the future tax structure from the present inquiry. It has been regarded as axiomatic that the taxation system should encourage economic growth, preserve the incentives to work and save; and should be anti-inflationary in nature.

53. With the present inflationary taxes and speculation in land unchecked we can expect accelerating debasement of the currency. With inflation eroding the value of savings invested in bonds or deposited in banks, investors speculate in land because its price is expected to increase as fast as or faster than the general price level. Inflation sends the price of land still higher. The higher land prices in turn feed inflation, forming a vicious circle which, if they are not checked, will eventually cause a breakdown in the economy.

54. It has been shown that the present tax structure of the Commonwealth does not contain any anti-inflationary form of tax to act as a brake on the inflationary effect of the indirect taxes used. And that the urgent need is for an adequate introduction into the Commonwealth taxation structure of taxes based on the potential earning power of properties whether used or not. Such taxes in the form of land rates, land taxes or land rentals are the only effective anti-inflationary measures available. In the next part we make positive proposals for change in the taxation structure which would provide for this.

55. However, these various taxes have not yet been discussed in relation to the other three groups of tax criteria headed B, C and D in paragraph 5 of this submission. In Appendix No. 5 to this submission is included a chapter from Henry George's book, "Progress and Poverty", entitled "The proposition tested according to the canons of taxation". This covers all these criteria and is as relevant now as when written nearly a century ago.

PART IV — PRACTICAL PROPOSALS

ESTABLISHMENT OF A NATIONAL DEVELOPMENT FUND FINANCED BY A DEVELOPMENT RATE ON LAND VALUES

56. Basically, our practical taxation proposals to encourage economic and efficient use of the resources of Australia and to counter the current and threatened further increases of inflation are to provide in the Commonwealth taxation structure for a substantial content of land value taxation. This would simultaneously be accompanied by corresponding abolition of the most inflationary or otherwise objectionable forms of current taxes, as part of a package deal described in the following paragraphs.

57. Under this proposition Commonwealth Government expenditure would be paid or reimbursed from whichever was appropriate of two separate accounts according to whether the payments were for (a) capital expenditure or (b) current day to day operating costs of the government departments or public enterprises concerned.

CAPITAL OUTLAY (a)

58. The broad principle to be followed with (a) would be that capital expenditure (which generates further wealth and thus maintains or increases the rental and capital value of land) would be paid or reimbursed from a special government account to be established and known as the **National Development Account**. This would appropriately be financed by a rate charge levied on the unimproved rental or capital value of all lands. To this account also would be added the land rentals received by the Commonwealth Government from its leasehold properties and royalties received from its mineral or other natural resources.

59. The basic concept of this is that capital costs of the government departments or public enterprises concerned have to be met by the taxpayers collectively, whether the services on which the funds are spent are used or not by particular taxpayers. But the existence and continued operation of those services does confer substantial financial benefit to property holding taxpayers as such, in increasing or maintaining the site rental and capital values of their land holdings. This benefit is not reaped by other categories of citizens. Hence it is fair and appropriate that these capital costs be raised by a **development-rate charge**

in proportion to the benefit conferred as registered in the land value.

OPERATING COSTS (b)

60. These are incurred respectively by public enterprises and other government departments, the financial arrangements for which are described in the following paragraph.

PUBLIC ENTERPRISES

61. The broad principle here is that the current day-to-day operating costs of public enterprises would be met by **charges to the users of the services** proportionate to the extent of that use **but only to the extent needed to recoup the operating costs**. They should not have added to them a component for interest or depreciation which are essentially capital costs.

62. Their **capital costs** would be paid or reimbursed from the proposed National Development Account. Their current working expenses (operating costs) would be recovered from the users of the services in charges related to the extent of their usage. In the Commonwealth field the major public enterprises by function are the Post Office, Railways, Civil Aviation, Housing, Snowy Mountains Authority, with others.

63. It would be an integral part of the package deal that the public enterprises receiving their capital outlay from the National Development Account **be required to correspondingly reduce their charges to users of the services by across-the-board cuts to the full extent that the contribution received from that fund exceeds their working expenses**. In particular, the Post Office at present is compelled by political decisions made some years ago to periodically increase its charges to users of the mail, telephone and broadcasting services to meet capital outlay of which it would be relieved under the National Development Account proposals. **It is important that the public be given the benefit of this relief by lower charges to offset against the new development rate payments. Similar considerations would apply to other public enterprises.**

64. Most of the government departments are not classified as public enterprises and it

would be neither practicable nor desirable that they be treated as such. Their **capital costs** would be met from the National Development Account as with those of the public enterprises. But their **operating costs** must be absorbed in the general revenue obtained through taxation of some form. From analysis made for the year 1968/69 (of which details are shown in Appendix No. 6) it is seen that of \$4,908 millions of non-capital expenditure by these departments only \$1,747 millions was used for their own operating expenses. The rest — amounting to 74 per cent of their total expenditure — was distributed in arbitrary transfers of wealth from one section of the community to another. Nearly one-third of this was as grants from the Federal to the State Governments.

65. It is considered that the most appropriate taxation basis for both the charitable distribution and that to State Governments would be on the basis of "ability to pay" as represented by income tax. In regard to the grants to State Governments it is noted that these are largely necessary because the Federal Government many years ago undertook to act as the common collector of income tax on a uniform basis on behalf of itself and State Governments, and to pass on their share to the latter. It is, therefore, fully in accordance with the currently accepted taxation sharing basis that income tax be the preferred form of tax from the proceeds of which would be met the grants to States; also the eleemosynary distribution by and the operating costs of running the Commonwealth Government departments concerned.

66. The retention of income tax for this purpose is preferred as a direct tax with less inflationary effect than indirect taxes such as sales tax, value-added tax, customs and excise duties. Nevertheless, it is considered that income tax is a dis-incentive to development generally and it is hoped that the growth of the National Development Fund in future years will allow contraction of the income tax field progressively in the tax structure. This is not to overlook that within the framework of its retention important changes may be made, as a result of this inquiry, to improve its administration and make it less onerous.

67. While there is a logical basis for retention of income tax to supplement it, the merit of our major proposal for the establishment of a National Development Account financed by

the rate on land values would not be vitiated by a different tax choice for that supplement.

THE COMMONWEALTH TAXATION STRUCTURE

68. The General revenue and taxation structure for the Commonwealth Government embodying these proposals would be as shown schematically below, for the three functional divisions of Commonwealth Government expenditure. The figures under those divisions in \$ million show the break-up of that expenditure for the year 1968/69, for which details are shown in Appendix No. 6 to this submission. They are approximate only as the \$316 million shown for interest and depreciation allowed is estimated only.

FEDERAL GOVERNMENT EXPENDITURE

	Capital outlay which generates further wealth and services (\$ million)	Current outlay for: (a) Government Departments (b) Transfers of existing wealth from one section of community to another (\$ million)	Current outlay working expenses of public enterprises (\$ million)
From Commonwealth to:—			
A. Fed. Government Depts.	\$159	(a) 1747 (b) 2006	
B. State Governments	264	1155	
C. (i) Fed. Public Enterprises	425	12	36
C. (ii) Fed. Public Enterprises	316		691
	<u>1164</u>	<u>4920</u>	<u>727</u>

Appropriate basis of payment

In proportion to values conferred to land sites	In proportion to ability to pay	In proportion to use made of the service
-------------------------------------------------	---------------------------------	------------------------------------------

Appropriate tax basis

levies on land rental value	Income Tax	Charges for use (fares, freights, postage etc.)
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FEDERAL GOVERNMENT REVENUE

69. The three divisions followed above for Federal Government expenditure would also apply to the pattern of State and Local Government expenditure. It is a common structure applicable to all levels of government for classification purposes. The Federal application only is given here as this is the subject of the present inquiry.

REVENUE NEEDED IN THE NATIONAL DEVELOPMENT ACCOUNT

70. With full application of the proposed structure as shown above, for the year 1968/69 used in the summary, approximately \$1164 millions would have been needed in the National Development Account and \$4,666 millions from other taxation. Check for the later year 1969/70, from Table No. 3 of "Public Authority Finance", suggests the amounts needed for that year would have been about \$1,500 millions for the National Development Account and \$5,200 millions in other taxes.

EXTENT OF ABOLITION OF OTHER TAXES MADE POSSIBLE ?

71. The National Development Fund proposal outlined is a package deal requiring that other forms of taxation be correspondingly abolished or reduced to the full extent of the revenue raised by the land value rate charge. It is therefore important to see how far \$1,500 millions would go in reducing these taxes in that year. The revenue yielded by the major Commonwealth taxes in 1969/70 is shown below and is taken from Table No. 7 of "Public Authority Finance" 1969/70 issued by the Commonwealth Statist.

Form of Tax	Kind	Revenue 1969/70 (\$ million)
Income Tax	Direct	4046.9
Estate Duty	Direct	71.3
Gift Duty	Direct	8.6
B'cast & TV Licence	Direct	48.4
Customs Duties	Indirect	413.6
Excise Duties	Indirect	939.3
Sales Tax	Indirect	568.7
Public enterprise charges to users (Post Office etc.)		1077.0

72. Suggested abolition or reductions in taxes (and charges to users of the public enterprises) possible within the budgeted \$1,500 million for that year would be:

1. Public enterprises charges to users of service — reduce by 25%		\$270 million
2. Estate duty	abolish	\$ 71 million
3. Gift duty	abolish	\$ 9 million
4. Sales tax	abolish	\$569 million
5. Customs and excise		\$581 million
6. Income tax	reduce	

73. The choice of the forms of taxes or charges to be abolished or reduced and the extent is not crucial to the National Development Fund proposal. It may well be thought that the reductions in taxes should be distributed pro-rata over all forms or that other priorities be given. It would be a government policy decision. However, it may prove helpful to state what considerations have led to the choices suggested above.

CONSIDERATIONS ON TAXES TO BE ABOLISHED OR REDUCED ARE:

74. (1) A major objective is to eliminate or substantially reduce the forms of taxes which are most inflationary and thus causes of the continuing currency debasement with escalation of retail prices to consumers. We seek to reverse the process and put value back into money.

(2) The net effect of the changed taxation structure on the taxpayers will be the additional outlay in the land rate **minus** the reduced outlay in other taxes. With adequately used properties the reductions will usually exceed the increases. With vacant or underused properties the outgoings will be greater. This is the intention but it is desirable that the reductions be extended over as wide a field of taxes as possible.

(3) Although not generally considered taxes, the charges made to users of their services by the Commonwealth public enterprises (of which the Post Office is the largest) contain a high tax content with harmful effects to all sections of the community. With their capital outlay met from the National Development Account the reduction in their charges follows automatically as essential to the proposal. The reductions in this would apply also to the Broadcast and TV licences which are part of these enterprises.

proved capital value is. Hence this value would necessarily have to be used as a starting point for the levy. However, the site rental value for the assessment could be taken initially as 5% of the unimproved capital value. Later re-valuations could periodically revise the percentage.

HOW TO GET THE INDIVIDUAL VALUATIONS ON WHICH TO LEVY THE NATIONAL DEVELOPMENT RATE

80. With the original Commonwealth Land Tax property owners were required to submit returns showing their own estimated value of the land. These were used as the basis for tax subject to the right of the Commonwealth to have its own valuers to make their estimate and amend it. The system worked fairly well and could be resumed if necessary. But the valuation techniques today are far better than then and ensure better relativity in the assessments between neighbouring taxpayers. Valuations establishing the unimproved capital value of properties are now made by local or departmental valuers for almost all properties in Australia. Access to the results of these valuations can be gained by one or more of several alternative methods indicated below.

(1) Arrangements could probably be made, in co-operation with the State Governments, for each local council or the land valuation department to supply an extract of the rateable unimproved capital values of each property on payment of an agreed fee for each extract. In Victoria there is provision for this information to be supplied to each body requiring them for rating purposes at a fee so that each user shares in the cost of making the valuations.

(2) The Commonwealth Government could obtain access to the valuations for its purposes by requiring the information to be included on each taxpayer's income tax return. It already follows this course for almost all the information needed, in the section relative to claims for tax deductions for rates and land taxes paid. This requires the taxpayer to state which authority the payment was made to; the reference number on receipt or assessment notice; and the amount of the payment made. The only relevant information not asked for, but needed as a base for the levy of the National Development Rate is the unimproved capital value of the property linked with the amount paid. The addition of an extra column for "valuation U.C.V." would provide the

missing figure at no extra cost to the Commonwealth. A minor disadvantage here could be that the income tax return would be retained in one section of the Department handling income tax returns, while the valuation figures would be needed in another section issuing the National Development Rate assessments. An extract would then be needed from the returns when received to pass on to the other section concerned. This extraction would be minor in time and cost.

(3) A further alternative would be to prepare an entirely separate return from to list the information on locations and valuations of each property held and send it to each person or firm who sent in an income tax return in the previous year (and to any new ones on receipt of a return from them). This would remove the tie-up with the income tax return and the need to extract the valuation figure from it as entailed with (2). The only connection then with the income tax return would be as a source for the address of the taxpayer so that his return for the development rate levy could be sought.

In Victoria, although all councils are required to take out the unimproved capital values in the course of re-valuation, about 15 have not yet completed this. In these cases, pending completion the U.C.V. could be taken as approximately 10 times the net annual value.

CONCLUSION

81. In conclusion, it is submitted that the foregoing proposals of the Land Values Research Group for the establishment of a National Development Fund, financed by a development rate on the value of land and accompanied by a simultaneous abolition or reduction of inflationary or otherwise objectionable forms of taxes, are a practical contribution towards improving the taxation structure of the Commonwealth.

They would provide the counter-inflationary brake now lacking to control the inflation already generated by the current forms of taxes. The proposals would fulfil the aims expressed in term of reference 2 (b) to secure as far as practicable that there is a fair distribution of the burden of taxation, and that revenue is raised by means that are not unduly complex.

Our proposals are, in fact, a simplification and streamlining of the taxation structure and pro-

vide it with a clear-cut concept lacking in the present taxation system. We commend them to your close consideration and hope you find them worthy of adoption in presenting your report arising from the Inquiry

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5th April, 1973

APPENDIX NO.2.

GROWTH RATES FOR KEY ECONOMIC INDICATORS

Item (1)	Unit (2)	Quantity Initial year 1960/61 (3)	Quantity Intermediate year 1966/67 (4)	Quantity Final year 1971/72 (5)	Growth Factor (5) ÷ (3) (6)	Increase (per cent)		Years in average
						Whole period	Average per annum	
Population (millions)		10.508	11.599	12.959	1.233	23.3	2.1	11
Wage and Salary earners (civilian)		3.126	3.775	4.509	1.444	44.4	4.0	11
<u>Production</u>								
Wheat (000 bushels)		273,716	466,610	315,714	1.153	15.3	1.4	11
Other grain crops (" ")		150,322	176,185	207,300	1.379	37.9	3.4	11
Wool (000 lbs.)		1,625,141	1,762,338	2,035,738	1.252	25.2	2.3	11
Cattle (000s)		17,322	18,270	27,377	1.579	57.9	5.2	11
Sheep (000s)		152,679	164,237	162,939	1.067	6.7	0.6	11
Total whole milk (000 gallons)		1,339,302	1,604,725	1,568,378	1.171	17.1	1.4	11
(for all purposes)								
Total fresh meat (tons)		1,314,533	1,591,162	2,269,636	1.726	72.6	6.6	11
<u>Monetised items (with inflation content)</u>								
Consumer Price index (All groups)		89.2	100.0	122.2	1.369	36.9	3.3	11
Wholesale " (materials used in homes)		N.A.	100.0	122.4	1.224	22.4	3.7	6
Note issue in public hands (\$mil.)		797	783	1,467	1.840	84.0	7.6	11
Retail sales (except motors) (" ")		5,173	7,043	10,018	1.936	93.6	8.5	11
Value of completed bldgs. (" ")		1,109.6	1,733	2,691 (1970-71)	2,425	142.5	14.2	10
<u>Indicators with high investment content in landed property or proceeds of its sales.</u>								
Deposits of public with trading banks (\$mil.)		3,366	5,218	7,701	2.287	128.7	11.7	11
Deposits of public with savings banks (" ")		3,138	5,724	8,339	2.657	165.7	15.1	11
Conveyances (N.S.W.) (" ")		820.6	1,057.6	2,559.8	3.119	211.9	19.6	11
Mortgages (N.S.W.) (" ")		431.2	623.2	1,617.6	3.751	275.1	25.0	11
Registered Mortgages (Victoria)		316.9	487.0	878.8	2.733	173.3	15.7	11
Registered								
<u>Municipal land valuations *</u>								
New South Wales (Whole State) (\$mil. UCV)		3,349	5,460.5	10,126	3.023	202.3	18.4	11
New South Wales (Metro) (" UCV)		2,115	3,835	7,283	3.443	244.3	22.2	11
Victoria (CIV) (Whole State) (" CIV)		5,509 (1959/60)	11,717 (1965/66)	16,497 (1970/71)	2.999	199.9	18.1	11
Queensland (Whole State) (" UCV)		640.7 (1960/61)	1,110.1 (1965/66)	1,859.8 (1970/71)	2.902	190.2	19.0	10
West Australia (UCV rating areas) (" UCV)		---	281.3 (1963/64)	1,145.2 (1970/71)	4.070	307.0	43.8	7
Tasmania (Whole State) (" UCV)		---	290.5 (1964/65)	483.4 (1970/71)	1.664	66.4	11.1	6

* Municipal land valuations understate the rise in land prices the current base dates at which they were taken on average being about three years behind current market transactions. For this reason the growth rate for conveyances and mortgages will be a more realistic indicator of the magnitude of the rises these being valued more recently for the purpose of obtaining the loan and registration of the mortgage. In future the N.S.W. revaluations will be made biennially and thus become nearer to market prices.

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Statistical sources are the Quarterly Summaries of Statistics and other publications of the Commonwealth Bureau of Census and Statistics