

Motu's Arthur Grimes and Deloitte's Mike Shaw detail pros and cons of land tax

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Motu economist Arthur Grimes and Deloitte partner Mike Shaw presented papers on what a land tax might look like to the Tax Working Group's final conference in Wellington on Tuesday, detailing the pros and cons. The full powerpoint presentations are reproduced below in SlideShare form.

Grimes presented a view of what a land tax might look like with a tax free threshold of either NZ\$50,000 per hectare or NZ\$1 million per hectare. A 0.5% tax on the unimproved value of land (around NZ\$460 billion in 2006) could generate around NZ\$2 billion in revenue. He then detailed the pros and cons of such a tax and a useful table (Page 9 in powerpoint) showing what the tax would look like for different types of properties.

Pros:

- * Brings in property to tax base. NZ has relatively low property taxes compared to other countries.
- * Progressive tax hits richest hardest and hits those with most children least, as they have less land
- * Hits Maori and Pacific Island communities least
- * Likely to cause rental property investors to rethink
- * Very cheap to administer
- * No avoidance or evasion
- * Land is immobile so no danger of assets 'fleeing' tax
- * Per hectare threshold reduces hit on farmers and foresters
- * Threshold cleaner and easier to administer than exceptions
- * Discourages land-banking property developers from sitting on land
- * Less borrowing for property investment and lower overseas debt

Cons

- * 0.5% land tax could reduce land values by as much as 15%
- * House prices (land and buildings) could fall by 4-8%
- * House price falls depends whether tax is deductible, level of real interest rates, other local body rates
- * Retired households hit hardest
- * Young homeowners with little equity, low discretionary income hit relatively harder



Deloitte partner Mike Shaw then presented his views on a land tax. He spoke in particular about a previous land tax in New Zealand that was repealed in 1992 after years of exemptions and exceptions. The list of those exemptions is on page 14 of his powerpoint presentation below. Shaw was more sceptical than Grimes about the potential cons and raised various questions.

Pros:

- * Efficient to collect and doesn't change land supply
- * Low rate tax
- * Would capture foreign land owners

Cons:

- * A wealth tax on all landowners
- * Would hit land values and discriminate against development of land (ie conversion of sheep to dairy)
- * Leaves other forms of capital untaxed, including art work, jewelry, boats
- * Doesn't change residential property tax advantages directly
- * Valuations may penalise those choosing 'alternative' land uses to those around them. (eg Beef farmer in conversion area, golf courses in residential area)
- * Big impact on asset rich/income poor retired people
- * Landlords may want to increase rent to cover increased costs
- * Land tax could drive some highly geared land owners and land bankers into insolvency

Questions

- * Would local authority land holdings (particularly parks and reserves) be included?
- * Would foreign government land holdings be included?
- * Would private and government owned land be treated the same? It could be distortionary if government owned enterprises get a tax 'break' by not having to pay.
- * Would charities have to pay tax on land holdings?
- * Should land tax be deductible for corporate or income tax?
- * Who would provide the valuations and could they be trusted?
- * Could retirees unable to pay defer payment until death?
- * Could commercial property owners recover the cost with lease re-negotiations