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# Land taxation: a New Zealand perspective

Jonathan Barrett and John Veal\*

## **Abstract**

This article considers land taxation from a New Zealand perspective. The theory underpinning land taxation is first sketched, along with the legislative history of land taxation in New Zealand and contemporary local arrangements. Generally accepted tax criteria are then applied to land tax proposals; other relevant concerns are also considered. It is concluded that, as a substitute for capital gains tax, which New Zealand does not currently levy, a national land tax has little to offer but, as a radical alternative to income tax, a national land value tax deserves greater consideration.

## **1. INTRODUCTION**

Land taxes have a long theoretical pedigree and, historically, a particular resonance in Australasia. Australia enacted a federal land tax in 1910 that coexisted with State land taxes until 1952.<sup>1</sup> Currently, save for the Northern Territory, land taxes are levied at a State level; local council rates are also charged.<sup>2</sup> New Zealand introduced a national land tax in 1878 that was not repealed until 1992.<sup>3</sup> Currently, only local authorities levy land taxes.<sup>4</sup> While land taxes at a sub-national level are considered 'natural', they have fallen out of favour as national taxes in Australasia. However, in 2010, New Zealand's Tax Working Group recommended a national land tax,<sup>5</sup> as have international agencies.<sup>6</sup> Why has there been a resurgence of interest in a tax that was considered obsolete long before its abolition?

First, it is widely accepted that government measures are needed among Organisation of Economic Cooperation and Development (OECD) member countries to mitigate inequality.<sup>7</sup> Inequality in New Zealand has increased since the land tax was

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<sup>1</sup> See the *Land Tax Assessment Act 1910* (Cth) and the *Land Tax Abolition Act 1952* (Cth). For a historical analysis of land taxes in Australia, see Cynthia Coleman and Margaret McKerchar, 'The History of Land Tax in Australia' in John Tiley (ed), *Studies in the History of Tax Law*, 4 (Hart Publishing, 2010) 281, 281-295. There is no constitutional impediment to a federal land tax; the reservation of land taxation to the States in the 1950s was driven by practical considerations. Ibid.

<sup>2</sup> See *Land Tax Act 2004* (ACT); *Land Tax Act 1956* (NSW); *Land Tax Act 2010* (Qld); *Land Tax Act 1936* (SA); *Land Tax Act 2000* (Tas); *Land Tax Act 2005* (Vic); *Land Tax Act 2002* (WA); and sundry local government Acts.

<sup>3</sup> See 2.2 below on the legislative history of land taxes in New Zealand.

<sup>4</sup> See 2.3 below on the rating system in New Zealand.

<sup>5</sup> Victoria University of Wellington Tax Working Group, *A Tax System for New Zealand's Future: Report of the Victoria University of Wellington Tax Working Group* (Centre for Accounting, Governance and Taxation Research, Victoria University of Wellington, 2010) ('Tax Working Group').

<sup>6</sup> See, for example, International Monetary Fund, *New Zealand: 2011 Article IV Consultation* (International Monetary Fund, 2011) 14.

<sup>7</sup> See, generally, Angel Gurría 'Tackling Inequality' (2011) 287 (Q4) *OECD Observer* 3.

abolished;<sup>8</sup> a national land tax might contribute to promoting equality.<sup>9</sup> Second, from the perspective of the Haig-Simons comprehensive income model,<sup>10</sup> the New Zealand tax system has a significant gap in its tax base, inasmuch as capital gains are not generally taxed. A land tax might go some way to filling this gap. Furthermore, property is, in general, lightly taxed in New Zealand.<sup>11</sup> Third, due in part to the lack of a capital gains tax (CGT),<sup>12</sup> investment in New Zealand is heavily skewed towards residential property.<sup>13</sup> While certain measures have been taken to limit the tax advantages of investment in real property,<sup>14</sup> a land tax could steer investors to more productive areas of the economy. Finally, such a tax might encourage the optimal use of land and thereby facilitate urban planning.

In this article, we consider the possibilities of a national land tax. In part 2 we sketch the theoretical underpinnings of land taxation along with its legislative history in New Zealand and contemporary local arrangements. In part 3, we apply generally accepted tax criteria to land tax proposals. We also take into account other relevant considerations, including visibility and political plausibility. Our particular concern is to examine proposals for a national land tax as a substitute for a CGT.

## 2. LAND TAXATION: AN OVERVIEW

In this part, we sketch the theoretical arguments for a land value tax (LVT) and the history of property taxation in New Zealand. We also outline current, local rating arrangements. At the outset, the important distinction between property taxes and LVTs should be noted. Richard Dye and Richard England explain the distinction thus:<sup>15</sup>

The traditional property tax applies the same rate to both improvement values and land values. A pure land tax exempts improvement values from taxation

<sup>8</sup> New Zealand's Gini coefficient increased from 0.27 in 1985 to 0.33 in 2008. (A Gini coefficient tending towards unity indicates greater inequality.) See *An Overview of Growing Income Inequalities in OECD Countries: Main Findings* OECD (2011) 24 <<http://www.oecd.org/dataoecd/40/12/49170449.pdf>>. We do not propose a causal connection between the abolition of the land tax and the increase in inequality.

<sup>9</sup> Alan Carter and Stephen Matthews, 'How Tax Can Reduce Inequality' (2012) 290/91 (Q1-Q2) *OECD Observer* 53, 53-54.

<sup>10</sup> See R M Haig, 'The Concept of Income', in R M Haig, T S Adams and T R Powell (eds), *The Federal Income Tax* (first published 1921, BiblioBazaar, 2009 ed) 7 and H C Simons, *Personal Income Taxation: The Definition of Income as a Problem of Fiscal Policy* (University of Chicago Press, 1938) 50.

<sup>11</sup> Local Government Rates Inquiry Panel, *Funding Local Government: Executive Summary* (2007) ('Shand Report') 2.

<sup>12</sup> Other factors include: underdeveloped capital markets, particularly since many utilities are state-owned enterprises; Reserve Bank lending directives that favour mortgages over loans for business investment; and planning rules that restrict development in peri-urban areas.

<sup>13</sup> OECD, *OECD Economic Surveys: New Zealand* (OECD, 2011) 6-7.

<sup>14</sup> For example, prior to the start of the 2011-2012 income year, a 20 per cent loading that was added to the depreciation rates for most new assets did not apply to buildings. Since the start of the 2011-2012 income year, no deduction for depreciation can be claimed on most types of buildings, including investment properties. See *Income Tax Act 2007* (NZ) s EE 31(3).

<sup>15</sup> Richard F Dye and Richard W England, 'The Principles and Promises of Land Value Taxation' in Richard F Dye and Richard W England (eds), *Land Value Taxation: Theory, Evidence, and Practice* (Lincoln Institute of Land Policy, 2009) 3, 4 n 1.

altogether and taxes only land values. A graded, dual-rate, or split-rate property tax applies a lower rate to improvement values. The term land tax valuation is used to represent both its pure and partial forms.

Broadly, a property tax is a proxy for income tax and, rightly or wrongly, presumes that a certain level of property holdings indicate a certain ability to pay taxes on a regular basis. In contrast, an LVT is about the land itself – its scarcity, immovability and centrality to human activity.

## 2.1 Theory

Among others, William Petty,<sup>16</sup> François Quesnay, Adam Smith, David Ricardo and John Stuart Mill have supported versions of land taxation.<sup>17</sup> For Quesnay and the Physiocrats, taxing land value ‘was justified because [of the] productiveness of land ... since all taxes had to be paid out of rent, it would be sensible to replace all other taxes by a single tax on rent’.<sup>18</sup> In his analysis of suitable subjects for taxation, Smith argued:<sup>19</sup>

Ground-rents are a still more proper subject of taxation than the rent of houses. A tax on ground-rents would not raise the rents of houses. It would fall altogether upon the owner of the ground-rent, who acts always as a monopolist, and exacts the greatest rent that can be got for the use of his ground.

Ricardo’s theory ‘was largely based on the premise that a tax on land rents would not have harmful effects on the economy as such a tax ... [and] would not inhibit production’.<sup>20</sup> Mill ‘suggested that if the rent of land increases as a result of society, the owners of the land should have no claim to this ‘windfall’ increase in land value’.<sup>21</sup>

Despite these august authorities, Henry George, whom Joseph Stiglitz describes as ‘a great progressive of the late nineteenth century’,<sup>22</sup> was the most prominent proponent of land value taxation. George argued that ‘an increase in land values would be due to increased productivity which was closely related to increases in population and wealth. The rental income gave land its value and as such could be collected in taxes without decreasing incentives for efficient production.’<sup>23</sup> *Progress and Poverty*,<sup>24</sup>

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<sup>16</sup> On Petty and land taxes, see Eric Roll, *A History of Economic Thought* (4th ed, Faber and Faber, 1973) 102-103. Karl Marx described Petty as ‘the father of political economy’. Ibid, 100.

<sup>17</sup> William J McCluskey and Riël C D Franzsen, *Land Value Taxation: An Applied Analysis* (Ashgate, 2005) 3.

<sup>18</sup> Ibid.

<sup>19</sup> Adam Smith, *An Inquiry into the Nature and Causes of the Wealth of Nations* (first published 1776, Encyclopaedia Britannica, Chicago, 1952 ed) 370.

<sup>20</sup> McCluskey and Franzsen, above n 17, 3.

<sup>21</sup> Ibid.

<sup>22</sup> Joseph E Stiglitz, ‘Principles and Guidelines for Deficit Reduction’ (Working Paper No 6, The Roosevelt Institute, 2010) 5.

<sup>23</sup> McCluskey and Franzsen, above n 17, 3.

<sup>24</sup> Henry George, *Progress and Poverty* (first published 1879, Hogarth Press, 1953 ed).

which set out George's proposal for a single land tax on the 'unearned increment',<sup>25</sup> attracted much attention in New Zealand.<sup>26</sup> As in California and Victoria, a practical scarcity of land in colonial New Zealand arose as a consequence of speculation.<sup>27</sup> Furthermore, contrary to 'the vision several leading Liberals had for New Zealand as a thriving rural economy populated by yeoman farmers',<sup>28</sup> the possibility of a landed 'aristocracy' forming as a consequence of land aggregation was feared, particularly by settlers whose families had experienced the Highland Clearances.

William McCluskey and Riël Franzsen argue that George's ideas influenced 'the politicians of the day in New Zealand, Australia, South Africa, Jamaica and Kenya to introduce such a tax',<sup>29</sup> but Gareth Morgan and Susan Guthrie observe that, despite being well known, George's views 'had little impact', with Mill appearing to have been more influential.<sup>30</sup> Nevertheless, Paul Goldsmith concludes that the first Liberal government, led by John Ballance, while not persuaded to implement George's radicalism, did wish to 'recover for the state at least a portion of the 'unearned increment' through a land tax'.<sup>31</sup> This wish was reflected in the progressive Land and Income Tax Assessment Act 1891 (NZ), which 'had the specific purpose of breaking up the large estates (so property ownership could be more evenly spread throughout the community)'.<sup>32</sup>

## 2.2 Legislative History

Notwithstanding an experimental property tax levied in the colonial period,<sup>33</sup> New Zealand's first direct tax was a land tax enacted in 1878.<sup>34</sup> This was succeeded in 1879

<sup>25</sup> Unearned increment may be defined as 'the value arising from all the government and private activities making the land reachable, livable, and richly salable, and from artificial scarcity produced by withholding land from its best use waiting for society to increase the value'. See Richard W Landholm, 'Twenty-One Land Value Taxation Questions and Answers' (1972) 31(2) *American Journal of Economics and Sociology* 153, 156.

<sup>26</sup> Robert D Keall, 'New Zealand: Land and Property Taxation' (2000) 59(5) *American Journal of Economics and Sociology* 417, 422.

<sup>27</sup> See, James Belich, *Replenishing the Earth: The Settler Revolution and the Rise of the Anglo-World, 1783-1939* (Oxford University Press, 2009) 186-187.

<sup>28</sup> Paul Goldsmith, *We Won, You Lost, Eat That!: A Political History of Tax in New Zealand since 1840* (David Ling, 2008) 83. See, also, Michael King, *The Penguin History of New Zealand* (Penguin Books, 2003) 260-261 on Liberal policies aimed at breaking up the large estates that had formed when 'sheep was king'.

<sup>29</sup> McCluskey and Franzsen, above n 17, 4-5.

<sup>30</sup> Gareth Morgan and Susan Guthrie, *Tax and Welfare: The Big Kahuna* (Public Interest Publishing, 2011), 91. However, while George may not have influenced national taxation, his ideas may have informed the land value elements of the local *Rating Acts Amendment Act 1893* 57 Vict 43.

<sup>31</sup> Goldsmith, above n 28, 84. However, Goldsmith records the remarkable arrangement under the *Land Act 1892* (NZ) whereby farmers could lease land from the government on 999 year leases at a rental of four per cent of capital value which would not be revalued during the term of the lease. He observes: 'If there was any such thing as the 'unearned increment', under this arrangement the government would get none of its whatsoever.' Ibid, 85.

<sup>32</sup> Morgan and Guthrie, above n 30, 71.

<sup>33</sup> The *Property Rate Ordinance 1844* 8 Vict 2 taxed both real and personal property, and income. New Zealand was a Crown colony from 1840 until 1856 when responsible government was conferred on the settlers.

<sup>34</sup> *Land Tax Act 1878* (NZ).

by a property tax, which included personal property in its base,<sup>35</sup> although a substantial exemption of £500 applied. The rate of tax in the first year was 1d/£1 (0.4 per cent). The property tax was repealed by the Land and Income Tax Assessment Act 1891 (NZ). This Act provided for a tax ‘on land and all mortgages held on land and also for a tax on income from business and emoluments’.<sup>36</sup> Initially the tax was levied on a split rate basis:<sup>37</sup> the ordinary land tax was levied at a rate of 1d/£1 (0.4 per cent) on the capital value of land owned less the value of improvements up to £3,000 and less the amount of any mortgages owing. The graduated land tax was levied at rates ranging from 1/8d/£1 (0.05 per cent) on the unimproved value of land over £5,000 to 13/4d/£1 (0.7 per cent) on the unimproved value in excess of £210,000.<sup>38</sup> From 1894, the land tax was levied on unimproved land value only,<sup>39</sup> and so can be considered an LVT proper.

The land tax was originally a major source of national revenue; indeed, its yield constituted 75.7 per cent of total land and income tax revenue in 1895.<sup>40</sup> The tax ‘also served a social purpose in acting as an inducement to the breaking up of unduly large land holdings’.<sup>41</sup> However, the land tax also led to avoidance and evasion, and costly challenges to valuations.<sup>42</sup> Opponents argued that the land tax hindered development and drove capitalists offshore.<sup>43</sup> Furthermore, illustrating the problems of practical ability to pay that arise from property taxation and LVTs, payment in years when the owner made a loss caused resentment.<sup>44</sup>

In 1967, recommending the abolition of land tax,<sup>45</sup> the Ross committee observed that ‘the revenue from land tax has dwindled to a very minor proportion of total Government revenue’ – a mere 0.5 per cent of total land and income revenue by 1965.<sup>46</sup> The committee also noted that the ‘tax is no longer necessary or effective as a means of breaking up large land holdings’.<sup>47</sup> However, the tax was not repealed as recommended and its fiscal significance decreased further, so that it contributed just one per cent of direct tax revenues in 1982.<sup>48</sup> Reporting in that year, the McCaw task force noted that the land tax was ‘simple and cheap to collect’ but had ‘no perceptible redistributive effect’ and was ‘not an adequate indicator of the taxable capacity provided by wealth’.<sup>49</sup> Unlike the Ross committee, the McCaw task force refrained from making any recommendations about the land tax. Nevertheless, the practice of

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<sup>35</sup> *Property Tax Act 1879* (NZ).

<sup>36</sup> *Taxation in New Zealand: Report of the Taxation Review Committee* (Government Printer, 1967) (‘Ross Report’) 410.

<sup>37</sup> *Ibid.*, 410.

<sup>38</sup> *Ibid.*

<sup>39</sup> *Ibid.*

<sup>40</sup> *Ibid.*, 413.

<sup>41</sup> *Ibid.*

<sup>42</sup> Morgan and Guthrie, above n 30, 92.

<sup>43</sup> *Ibid.*, 77.

<sup>44</sup> *Ibid.*

<sup>45</sup> Ross Report, above n 36, 415.

<sup>46</sup> *Ibid.*, 413.

<sup>47</sup> *Ibid.*

<sup>48</sup> *Report of the Task Force on Tax Reform* (Government Printer, 1982) (‘McCaw Report’) 228. In 1960, land tax contributed six per cent of direct tax revenues. In the same period, the land tax as a percentage of gross domestic product (GDP) fell from 0.9 per cent to 0.2 per cent. *Ibid.*

<sup>49</sup> *Ibid.*, 230.

taxing income and land under the same legislation ended when the separate Income Tax Act 1976 (NZ) and Land Tax Act 1976 (NZ) were enacted. Finally, the Land Tax Abolition Act 1990 (NZ) repealed the land tax with effect from 31 March 1992.

Why did the land tax, which was originally such a major source of national government revenue and, indeed, an important instrument of social engineering, become so insignificant? To a great extent, successive governments allowed the tax to fail. Philosophically, a policy shift from taxing Georgian ‘unearned increment’ to taxing comprehensive income in terms of the Haig-Simons principle can be discerned.<sup>50</sup> Thus, from the 1940s, around the world, income tax brought many more people into the tax net and, as a consequence, grew exponentially in importance for government revenue.<sup>51</sup> With the ascendancy of income tax, no incentive lay in formulating a better land tax.<sup>52</sup> Another narrative is that of the unwillingness of New Zealand governments since the 1980s to tax capital.<sup>53</sup> In practice, the land tax was undermined by exemptions: in 1982, only five per cent of total land value was taxed, ‘agricultural land being explicitly exempted and residential land effectively exempted by the exemption of \$175,000 for all landowners’.<sup>54</sup> Furthermore, it was thought that effective use of a national LVT was limited because local property rates constitute the principal source of local authority revenue.<sup>55</sup>

### 2.3 Contemporary Land Taxation

The Local Government Act 2002 (NZ), which introduced significant changes to local government in New Zealand,<sup>56</sup> empowers local authorities to pursue their communities’ social, economic, environmental and cultural well-beings.<sup>57</sup> Through processes of community consultation and deliberation, local authorities must formulate community outcomes, derived from these four well-beings. A long-term plan, which a local authority must have at all times,<sup>58</sup> is an evolving and rolling blueprint for achieving those community-specific outcomes. The Local Government (Rating) Act 2002 (NZ) invests local authorities with powers to charge rates ‘in order to promote the purposes of the [Local Government] Act’.<sup>59</sup> The four types of rates that

<sup>50</sup> This is not to suggest that the New Zealand government ever explicitly conceived the land tax in Georgian terms, rather than broad ability to pay.

<sup>51</sup> See, for example, Tom Clark and Andrew Dilnot, ‘Long-Term Trends in British Taxation and Spending’ Briefing Note No 25 (The Institute for Fiscal Studies, 2002).

<sup>52</sup> Morgan and Guthrie, above n 30, 77.

<sup>53</sup> Cf the abolition of the capital transfer tax system. *Estate Duty Abolition Act 1993* (NZ) s 3 abolished estate duty in respect of deaths occurring on or after 17 December 1992, but gift duty, which was ancillary to estate duty, was somewhat oddly retained. In the absence of estate duty and the presence of generous concessions, gift duty was subsequently considered ineffective and eventually repealed by the *Taxation (Tax Administration and Remedial Matters) Act 2010* (NZ).

<sup>54</sup> McCaw Report, above n 48, 230.

<sup>55</sup> Ibid. G Bush, ‘Local Government in R Miller (ed), *New Zealand Government and Politics* (Oxford University Press, 2003) 161, 164 reports that in 2001 an average of 57 per cent of local authority revenue was contributed by rates (excluding user charges).

<sup>56</sup> See, generally, Vivienne Wilson and Jonathan Salter, *A Guide to the Local Government Act 2002* (Brookers, 2003).

<sup>57</sup> *Local Government Act 2002* (NZ) s 10.

<sup>58</sup> *Local Government Act* s 93(1).

<sup>59</sup> *Local Government (Rating) Act 2002* (NZ) s 3. The *Rating Valuations Act 1998* (NZ) provides for methods of land valuation and the *Land Valuations Proceedings Act 1948* (NZ) provides for a system of appeals against those valuations. The *Rates Rebate Act 1973* (NZ), which establishes a scheme of rates

may be charged are:<sup>60</sup> a general rate, chargeable against all rateable land;<sup>61</sup> a fixed amount, universal annual general charge (UAGC), payable in respect of each rateable unit;<sup>62</sup> a targeted rate for particular activities identified in a local authority's funding impact statement, such as waste removal;<sup>63</sup> and a targeted rate for water supplied.<sup>64</sup> The aggregate of targeted rates (excluding the water rate) and UAGCs may not exceed 30 per cent of a local authority's total rates revenue.<sup>65</sup> Differentiated rates may be charged for different categories of land<sup>66</sup>

In setting the general rate, local authorities may use land value (unimproved value), capital value (improved value) or annual value (imputed rental from improved land).<sup>67</sup> While land value is traditionally thought to be the 'natural' base for rural authorities, and capital for urban areas,<sup>68</sup> some urban authorities use a land base and some rural authorities a capital base.<sup>69</sup> At the risk of imputing a degree of theory that may not in practice inform local authorities' decisions in this regard,<sup>70</sup> capital value rating may be seen as a proxy income tax and a land base as an LVT that incentivises optimal development.<sup>71</sup>

McCluskey and Franzsen observe that '[h]istorically, as the primary focus of local government was for the provision of services to property (for example water supply, sewerage, stormwater drainage), ratepayers were considered to be the direct beneficiaries of these services'.<sup>72</sup> The general competence powers extended to local authorities under the Local Government Act may, to some extent, have broken this nexus. However, reforms proposed by the current National-led government that would restrict local authority activities might revive the obvious connection between

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rebates disbursed by central government, is not part of the locally constructed rating system but affects final rating outcomes.

<sup>60</sup> *Local Government Act* part 8, subpart 5 provides for a charge in relation to new developments.

<sup>61</sup> *Local Government (Rating) Act* s 13.

<sup>62</sup> *Local Government (Rating) Act* s 15.

<sup>63</sup> *Local Government (Rating) Act* s 16.

<sup>64</sup> *Local Government (Rating) Act* s 19. The distinction between rates (revenue tax), charges (fees linked to expenditure of a council) and user charges (specific cost recoveries) has been judicially recognised. See *Neil Construction v North Shore City Council* (unreported, High Court, Auckland Registry, Auckland, CIV 2005-404-4690, 21 March 2007 [44], Potter J).

<sup>65</sup> *Local Government (Rating) Act* s 21.

<sup>66</sup> *Local Government (Rating) Act* s 13(2)(b).

<sup>67</sup> *Local Government (Rating) Act* s 13(3). Before 1896, when land value became a base option, use of annual value was normal but is now of historical interest only. See also McCluskey and Franzsen, above n 17, 10-13 for a discussion of land tax base options.

<sup>68</sup> See Rolland O'Regan, *Rating in New Zealand* (2nd ed, Baranduin Publishers, 1985) 38; K A Palmer, *Local Government Law in New Zealand* (2nd ed, Law Book Co, 1999) 338.

<sup>69</sup> See William McCluskey with Arthur Grimes and Jason Timmins, *Property Taxation in New Zealand* Local Government New Zealand 4 <[http://www.lgnz.co.nz/library/files/store\\_005/property\\_taxes.pdf](http://www.lgnz.co.nz/library/files/store_005/property_taxes.pdf)>.

<sup>70</sup> William McCluskey et al, 'Rating Systems in New Zealand: An Empirical Investigation into Local Choice' (2006) 14(3) *Journal of Real Estate Literature* 381, 394 observe that 'wealthier local authorities tend to adopt a capital value rating system in preference to a land value rating system ... there is a correlation between the level of revenue raised and the level of local expenditure ... local authorities in wealthier areas can afford to spend more lavishly on services than can authorities in poorer areas'.

<sup>71</sup> See Palmer, above n 68, 364. C D Foster, R Jackman and M Perlman, *Local Government Finance in Unitary State* (George Allen and Unwin, 1980) 170; Jonathan Barrett, 'Equity in Local Government Rating' (2007) 13(4) *New Zealand Journal of Taxation Law and Policy* 621, 625-633.

<sup>72</sup> McCluskey and Franzsen, above n 17, 141.



ratepaying and enjoyment of basic services.<sup>73</sup> Does the close connection between local property taxes and locally provided services preclude a national LVT?

Since local rating and a national land tax ran parallel for a century in New Zealand, the idea that property taxes are the unique preserve of local government is not historically plausible. Australia continues to provide an example of different tier political sub-divisions sharing the same basic tax base.<sup>74</sup> Indeed, given the shift towards capital value taxation in rating,<sup>75</sup> it might be argued that an LVT would have a different base from rates. As in many other countries,<sup>76</sup> property is, in general, lightly taxed in New Zealand. Although the rates yield of an amount approximately equal to two per cent of GDP (in 2008) is in line with the OECD average, yield as a percentage of aggregate housing value fell from 2.2 per cent in 1980 to 0.65 per cent in 2008.<sup>77</sup> Furthermore, between 1991 and 2002, aggregate land value grew at 4.8 per cent a year, while per capita growth in GDP was approximately two per cent over the same period.<sup>78</sup> Since rates are 'somewhat regressive in their impact',<sup>79</sup> scope exists not only for making existing 'property taxes both fairer and less distortive',<sup>80</sup> but also to accommodate a low rate national LVT.

### 3. IS A NATIONAL LVT DESIRABLE?

Andrew Coleman and Arthur Grimes present a plausible national LVT model for New Zealand. A one per cent LVT on all non-government land would raise revenue equivalent to 20 per cent of current income tax yield.<sup>81</sup> Adopting, in part, the Coleman-Grimes model, a majority of the Tax Working Group recommended an LVT.<sup>82</sup> Smith famously proposed equity, certainty, convenience and efficiency as the four 'maxims with regard to taxes in general'.<sup>83</sup> We have already noted that, having

<sup>73</sup> Local Government Act 2002 Amendment Bill 2012 (27-1) proposes a new purpose for local government of meeting 'the current and future needs of communities for good quality local infrastructure, local public services, and performance of regulatory functions in a way that is most cost-effective for households and businesses'. The Bill also provides for the establishment of financial prudence requirements, sets benchmarks for local authorities' performance in respect of income and expenditure, and establishes 'prudent debt levels'. Ibid, explanatory note.

<sup>74</sup> Coleman and McKerchar, above n 1, 293.

<sup>75</sup> Of the seven former councils that now comprise the so-called Auckland 'super city', only one used capital value before the merger. However, the merged council, which governs one third of the country's population, uses capital value. See Property Valuation Auckland Council (2011) <<http://www.aucklandcouncil.govt.nz/EN/ratesbuildingproperty/ratesvaluations/propertyvaluation/Pages/generalrevaluation2011.aspx?>>.

<sup>76</sup> See Carter and Matthews, above n 9, 54.

<sup>77</sup> Calista Cheung, 'Policies to Rebalance Housing Markets in New Zealand' (Working Paper No 878, OECD Economics Department, 2011) 20.

<sup>78</sup> McCluskey et al, above n 70, 387.

<sup>79</sup> Shand Report, above n 11, 2.

<sup>80</sup> Carter and Matthews, above n 9, 54.

<sup>81</sup> Andrew Coleman and Arthur Grimes, 'Fiscal, Distributional and Efficiency Impacts of Land and Property Taxes' (2010) 44(2) *New Zealand Economic Papers* 179, 179-199.

<sup>82</sup> Tax Working Group, above n 5, 50. The Tax Working Group contemplated a 0.5 per cent tax that would raise up to \$2.3 billion or 10 per cent of income tax revenue. Ibid, 45.

<sup>83</sup> Smith, above n 19, 361-362. Similarly, for the Commonwealth, *Australia's Future Tax System: Report to the Treasurer* (2010) ('Henry Report') Executive summary, vii economic efficiency, equity

applied these criteria, Smith favoured a ground rent tax.<sup>84</sup> However, in this part we apply anew Smith's maxims and other relevant considerations to LVTs in a contemporary context. The Coleman-Grimes model indicates that a national LVT is economically plausible but is it otherwise desirable for New Zealand?

### 3.1 Equity

LVTs are premised on a radical conception of equity. 'George argued that taxes on land promote fairness because the value of the land is determined by community rather than individual efforts.'<sup>85</sup> Since the economic rent arising from land value is considered an unearned surplus brought into existence by the activities of the community in general, rather than anything the owner has done,<sup>86</sup> it is eminently taxable. Furthermore, the burden of an LVT falls entirely on landowners.<sup>87</sup> Equity in this fundamental sense is plausible, but people have been inured to the idea that ability to pay during the assessment period, which lies in horizontal equity (fairness in the tax base) and vertical equity (fairness in tax rates), is the badge of equity. Vertical equity issues are less relevant for LVTs than for, say, income tax because LVT rates tend to be low,<sup>88</sup> although not as low as property tax rates, and are likely to draw less attention if they are flat.<sup>89</sup> However, horizontal equity is a more contentious issue. As Elizabeth Plummer observes, '[i]f land value as a percentage of net wealth increases as household income increases, then a land value tax will be progressive ... [but] land value as a percentage of net wealth decreases as wealth increases, which suggest that a land value tax might be somewhat regressive'.<sup>90</sup> Older people, often on fixed incomes, would be significantly affected by a shift to property taxation since, even though inequities between taxpayers seem to be far greater where capital value, rather than land value is used,<sup>91</sup> superannuitants tend to own disproportionately expensive properties relative to their incomes. However, '[d]ifferences in land ownership

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(horizontal, vertical and intergenerational), and simplicity were key, and the Tax Working Group, above n 5, 9 identified the six principles of a good tax system as: the overall coherence of the system, efficiency and growth, equity and fairness, revenue integrity, fiscal cost, and compliance and administration costs.

<sup>84</sup> Smith, above n 19, 379.

<sup>85</sup> Dye and England, above n 15, 4.

<sup>86</sup> For a discussion, see Owen Connellan, with contributing authors Nathaniel Lichfield, Frances Plimmer and Tony Vickers, *Land Value Taxation in Britain: Experience and Opportunities* (Lincoln Institute of Land Policy, 2004) 11.

<sup>87</sup> Wallace E Oates and Robert M Schwab, 'The Simple Analytics of Land Value Taxation' in Richard F Dye and Richard W England (eds), *Land Value Taxation: Theory, Evidence, and Practice* (Lincoln Institute of Land Policy, 2009) 51, 71.

<sup>88</sup> A historical curiosum may be noted. In 1757, the English land tax reached a rate of 4s/£1 (20 per cent). See Asa Briggs, *A Social History of England* (Weidenfeld and Nicolson, 1983) 167.

<sup>89</sup> See Morgan and Guthrie, above n 30, 93 for argument why LVT rates should not be progressive.

<sup>90</sup> Elizabeth Plummer, 'Fairness and Distributional Issues' in Richard F Dye and Richard W England (eds), *Land Value Taxation: Theory, Evidence, and Practice* (Lincoln Institute of Land Policy, 2009) 73, 98. For an argument that land value base is more progressive than a capital base, see Suzi Kerr, Andrew Aitken and Arthur Grimes, 'Land Taxes and Revenue Needs as Communities Grow and Decline: Evidence from New Zealand' (Working Paper 04-01, Motu Economic and Public Research, 2004) 28.

<sup>91</sup> See G Stacy Sirmans, Dean H Gatzlaff and David A Macpherson, 'Horizontal and Vertical Inequity in Real Property Transactions' (2008) 16(2) *Journal of Real Estate Literature* 167, 167-180.

patterns make it difficult to generalize across countries, states, or even cities when considering the distributional effects of a land value tax'.<sup>92</sup>

In short, while an LVT promises to deliver equity in a fundamental way, it is likely to be considered inequitable by those negatively affected: we revisit this problem under the heading of political plausibility below.

### 3.2 Efficiency

An LVT is economically neutral,<sup>93</sup> and is, therefore, 'efficient in that it does not distort investment choices',<sup>94</sup> such as the timing of land development,<sup>95</sup> and, therefore, does not generate an excess burden (deadweight loss).<sup>96</sup> Since land is inelastic in supply, 'no adverse supply side effects' arise from the introduction of an LVT as many other new taxes do.<sup>97</sup> In terms of economic efficiency, LVTs are often favourably compared with property taxes:<sup>98</sup> as Richard Lindholm observes, an LVT 'takes the burden of the property tax off value created by individual effort and places it on the value created by society'.<sup>99</sup> However, the exclusion of individual effort from the tax net also critically distinguishes LVTs from income tax.

The very nature of the subject of taxation presents economic advantages for LVTs. The large and fixed supply of land enables high revenue from a low rate.<sup>100</sup> In the aftermath of the global financial crisis, LVTs may also contribute to stabilising the world economy, particularly by preventing capital flight.<sup>101</sup> As Terry Dwyer argues, '[i]n a world that is mobile and labour supply is shrinking in line with demographic decline, an immobile tax base is the only tax base which makes economic sense'.<sup>102</sup>

### 3.3 Certainty

'One of the biggest challenges for land value taxation is obtaining accurate defensible land values.'<sup>103</sup> Indeed, because fixing land value is far more challenging than assessing capital value, Edwin Mills concludes that likelihood of valuation errors

<sup>92</sup> Riël C D Franszen, 'International Experience' in Richard F Dye and Richard W England (eds), *Land Value Taxation: Theory, Evidence, and Practice* (Lincoln Institute of Land Policy, 2009) 27, 47.

<sup>93</sup> T Nicolaus Tideman, 'A Tax on Land Value Is Neutral' (1982) 35(1) *National Tax Journal* 109, 109-111

<sup>94</sup> Dye and England, above n 15, 4.

<sup>95</sup> Oates and Schwab, above n 87, 71.

<sup>96</sup> Stiglitz, above n 22, 5.

<sup>97</sup> For a discussion, see Connellan et al, above n 86, 11.

<sup>98</sup> Nobel laureate William Vickrey concludes: 'The property tax is, economically speaking, a combination of one of the worst taxes – the part that is assessed on real estate improvements ... and one of the best taxes – the tax on land or site value.' Quoted by Sally Kwak and James Mak, 'Political Economy of Property Tax Reform: Hawaii's Experiment with Split-Rate Property Taxation' (2011) 70(1) *American Journal of Economics and Sociology* 4, 4-5.

<sup>99</sup> Richard W Lindholm, 'Twenty-One Land Value Taxation Questions and Answers' (1972) 31(2) *American Journal of Economics and Sociology* 153, 153.

<sup>100</sup> Tax Working Group, above n 5, 50.

<sup>101</sup> Michael Kumhof and Romain Rancière, 'Leveraging Inequality' (2010) 47(4) *Finance & Development* 28, 31.

<sup>102</sup> Terry Dwyer, 'The Taxable Capacity of Australian Land and Resources' (2008) 18 *Australian Tax Forum* 21, 41.

<sup>103</sup> Plummer, above n 90, 96.

vitiates the advantages of an LVT.<sup>104</sup> Jeffrey Chapman and his co-authors argue that such claims are overstated,<sup>105</sup> and, despite, say, a paucity of vacant lots in urban areas to act as comparators, skilled assessors can develop plausible valuation techniques.<sup>106</sup> Thus Alan Carter and Stephen Matthews observe that ‘out-of-date values for tax purposes often distort the efficiency of property markets (by discouraging individuals from moving home, thus reducing labour mobility)’.<sup>107</sup> Valuation of the tax base for an LVT may have a disproportionate effect both on equity and economic efficiency in a way that does not apply to taxes whose bases comprises different components.<sup>108</sup> Without gainsaying the importance of accurate valuation to an LVT, we submit that Alan Dornfest’s prescriptions for valuation practice would contribute significantly reducing both equity and efficiency risks.<sup>109</sup>

### 3.4 Convenience

In New Zealand, a national LVT would be convenient for both government and taxpayers because of the existing local government rating system:<sup>110</sup> taxpayers would not, for example, need to keep records of property values in the way of a CGT. However, taxation of unrealised capital gains is problematic because tax on wealth, rather than current cash flows, impacts on practical ability to pay, especially when markets are volatile.<sup>111</sup> In rejecting a ‘factor tax’, which would apply only to farmland, the Ross committee considered practical ability to pay to be a critical concern, particularly the effects on farmers’ income of flooding or movements in international commodity prices.<sup>112</sup> It might be argued that landowners with volatile incomes should engage in contingency planning, but, as the committee recognised, the impact of the tax could drive some farmers off their land.<sup>113</sup>

Notwithstanding individual ‘inconvenience’, economically inefficient landowners leaving their land might be seen as promoting aggregate utility. However, a particular problem such a crudely utilitarian argument faces in New Zealand is the impact on under-utilised Māori land. As Levente Tímár observes, ‘Māori freehold land is

<sup>104</sup> Edwin S Mills, ‘The Consequences of a Land Tax’ in Dick Netzer (ed), *Land Value Taxation: Can It and Will It Work Today?* (Lincoln Institute of Land Policy, 1998) 31, 31-48.

<sup>105</sup> Jeffrey C Chapman, Robert J Johnston and Timothy J Tyrrell, ‘Implications of a Land Tax with Error in Assessed Values’ (2009) 85(4) *Land Economics* 576, 584.

<sup>106</sup> Roy Bahl and Sally Wallace, ‘A New Paradigm for Property Taxation in Developing Countries’ in Roy Bahl, Jorge Martinez-Vazquez (eds), *Challenging the Conventional Wisdom on the Property Tax* (Lincoln Institute of Land Policy, 2010) 165, 175.

<sup>107</sup> Carter and Matthews, above n 9, 54.

<sup>108</sup> If one item is wrongly valued for goods and services tax purposes, the consequences are likely to be trivial for the taxpayer, but if the sole taxed item under an LVT is wrongly valued, the consequences for the taxpayer are likely to be significant.

<sup>109</sup> These include: annual assessment to ensure current market value; frequent reappraisals contingent on quality thresholds; quality assurance of valuers and high quality and accurate land records. See Alan S Dornfest, ‘In Search of an Optimal Revaluation Policy: Benefits and Pitfalls’ in Roy Bahl, Jorge Martinez-Vazquez (eds), *Challenging the Conventional Wisdom on the Property Tax* (Lincoln Institute of Land Policy, 2010) 75, 102.

<sup>110</sup> Tax Working Group, above n 5, 50.

<sup>111</sup> Steven C Bourassa, ‘The Political Economy of Land Value Taxation’ in Richard F Dye and Richard W England (eds), *Land Value Taxation: Theory, Evidence, and Practice* (Lincoln Institute of Land Policy, 2009) 195, 195.

<sup>112</sup> Ross Report, above n 36, 291.

<sup>113</sup> *Ibid.*

underdeveloped relative to general land, even after taking into account differences in land quality and location. These findings are relevant for policy-makers because they could have important equity implications.’<sup>114</sup> The Georgian LVT came to prominence at a time when indigenous peoples were being displaced from their lands by European settlers; the idea that a contemporary LVT might have the effect of driving tangata whenua (original people of the land) from their current land holdings is politically unimaginable.

### 3.5 Other Considerations

#### 3.5.1 Steering Investment

Personal investment in New Zealand is heavily skewed towards residential property. ‘New Zealanders have twice as much capital sunk into houses (and the land underneath) as they hold in financial assets such as bank deposits and managed funds. They’ve been encouraged to do this by the tax system.’<sup>115</sup> As Morgan and Guthrie observe, these tax preferences have ‘grossly distorted how wealth has been invested and has led to a considerable waste of capital’.<sup>116</sup> The OECD argues that the omission of ‘imputed rents and capital gains from the NZ tax base contributes to diverting household portfolios towards housing ... measures [taken so far] should be accompanied by higher property or land taxes that could be designed to achieve the same objectives as a tax on imputed rent’.<sup>117</sup>

Clinton Alley and Michael Davis propose a land transfer levy to tax wealth accretions through property: the main purpose of the tax would be to correct the tax induced preference for investment in residential property in New Zealand.<sup>118</sup> The authors observe: ‘It does require political intent to make the change for the betterment of future generations in this macro-economic marketplace. The abiding question is, who has the will to plant the seed for New Zealand’s future by introducing a low-rate land transfer levy reforms?’<sup>119</sup> Political preference lies at the root of property taxes in New Zealand. Singling out real property owners, particularly farmers,<sup>120</sup> for special tax treatment would, indeed, appear to constitute a brave political move; however, both the Labour and Green parties, which might plausibly form a future government,

<sup>114</sup> Levente Tímár, *Rural Land Use and Land Tenure in New Zealand* (Working Paper 11-13, Motu Economic and Public Policy Research, 2011) 36-37.

<sup>115</sup> Morgan and Guthrie, above n 30, 137 (n omitted). However, it would be wrong to suggest that favourable taxation is the sole or principal reason for New Zealanders’ ‘obsession’ with property investment. Immature capital markets, migration patterns and ‘easy credit conditions’ have made rental property an attractive investment option. See Cheung, above n 77, 6.

<sup>116</sup> See Morgan and Guthrie, above n 30, 122.

<sup>117</sup> See OECD, *OECD Economic Surveys: New Zealand* (OECD, 2011) 6-7. This is not a proposal for an LVT proper, rather for a limited form of wealth taxation. It should also be noted that New Zealand does not extend any form of mortgage relief to home owners.

<sup>118</sup> Clinton R Alley and Michael J Davies, ‘A Land Transfer Levy with Equity as the Key: A Preliminary Examination into an Alternative Regime to Generate Broad-Based Tax Revenue’ (2011) 17 *New Zealand Journal of Taxation Law and Policy* 309, 309.

<sup>119</sup> *Ibid*, 338.

<sup>120</sup> In its recommendations for broadening the base of Australian land taxes, the Henry Report, above n 88, Executive summary, xxi envisaged ‘most land in lower-value use (including most agricultural land) would not face a land tax liability’. Likewise, the Tax Working Group, above n 5, 51 contemplated farms and forestry land being exempt from an LVT.

support a CGT.<sup>121</sup> The Tax Working Group proposed a land tax principally because a CGT was thought to face insurmountable political hurdles.<sup>122</sup> But, if the political will already exists to pursue a CGT; that is surely the best option from a perspective of filling the gap in the Haig-Simons comprehensive income model.<sup>123</sup> As the New Zealand Productivity Commission concluded on the possibility of a specific tax on real property gains in lieu of a CGT, '[a]ddressing particular anomalies in isolation from a broad review of the tax system would further complicate the system and could have unintended effects on housing markets and housing affordability.'<sup>124</sup>

### 3.5.2 Urban planning

Spencer Banzhaf and Nathan Lavery argue that an LVT increases the number of housing units erected on an area of land, and the consequent higher density of housing 'is potentially a powerful anti-sprawl tool'.<sup>125</sup> However, due to green or town belt policies generally adopted by New Zealand cities, urban sprawl does not tend to be an issue.<sup>126</sup> Indeed, Don Brash argues that current urban limits should be extended in order to decrease the price of residential land.<sup>127</sup> The significance of an LVT in this context as an urban planning tool is not obvious, although an LVT that reduces the price of land might lead to better housing affordability.

Since more intensive use of land may lead to unduly dense development or the destruction of heritage buildings,<sup>128</sup> to be effective as an urban planning tool, an LVT would need to be integrated with other planning mechanisms. However, since urban and environmental planning in New Zealand is highly localised,<sup>129</sup> it is difficult to see how a national LVT could be integrated in the way that local rates may be.

<sup>121</sup> See Vernon Small and Tracey Watkins, 'Shearer No Big Spender as Labour's Future Direction Begins to Unfold' *The Dominion Post* (Wellington), 16 March 2012, 2 and Isaac Davison, 'Greens Sound Warning on Govt's 'Reckless' Path' *The New Zealand Herald* (Auckland), 5 June 2012, 4.

<sup>122</sup> For an analysis of the implausible arguments against CGT that have traditionally proved persuasive across the political spectrum, see Chye-Ching Huang and Craig Elliffe, 'Is New Zealand Smarter than Other Countries or Simply Special?' (2010) 16(3) *New Zealand Journal of Taxation Law and Policy* 269, 269-306.

<sup>123</sup> The type of tax contemplated here appears to be a property tax, rather than an LVT. Thus, the tax would constitute a CGT substitute in relation to a particular class of property. See Andrew Coleman, 'The Long-Term Effects of Capital Gains Taxes in New Zealand' (Working Paper 09-13, Motu Economic and Public Research) 2.

<sup>124</sup> New Zealand Productivity Commission, *Housing Affordability Inquiry* (New Zealand Productivity Commission, 2012) 101.

<sup>125</sup> H Spencer Banzhaf and Nathan Lavery, 'Can the Land Tax Help Curb Urban Sprawl? Evidence from Growth Patterns in Pennsylvania' (2010) 67 *Journal of Urban Economics* 169, 169-179. See also Wallace E Oates and Robert M Schwab, 'The Impact of Urban Land Taxation: The Pittsburgh Experience' (1997) 50(1) *National Tax Journal* 1, 1-21; Landholm, above n 25, 156-157.

<sup>126</sup> In Auckland, where urban sprawl has the greatest potential to take place, there is little demand for land at the urban limits compared to inner city sections. See Greg Ninness, 'House Price Solution in Funding, Not in More Land' *Sunday Star-Times* (New Zealand), 22 July 2012, 4.

<sup>127</sup> 'NZ Has Land Supply Problem, Not House Price Problem – Brash', *The National Business Review* (online), 16 July 2012 <<http://www.nbr.co.nz/article/house-pricing-land-cost-ridiculous-says-brash-ck-123568>>.

<sup>128</sup> Bourassa, above n 111, 196. It is uncontroversial that heritage buildings should be preserved, but people seem to want denser urban development, which may have general environmental benefits.

<sup>129</sup> See generally *Local Government Act* and *Resource Management Act 1991* (NZ).

### 3.5.3 Visibility

Unlike, say, income tax deducted on a pay as you earn (PAYE) basis, property taxes, are egregiously visible to taxpayers.<sup>130</sup> The ‘ritual’ of paying local rates usefully focuses the minds of taxpayers on the services they receive from their local authorities,<sup>131</sup> but visibility can present psychological barriers, particularly, to property taxes.<sup>132</sup> Because LVTs tend to require higher nominal rates than property taxes, they are ‘politically highly visible and possibly less acceptable to property owners’.<sup>133</sup> Conversely, as Roy Bahl and Sally Wallace observe, taxpayer resistance may also arise when ‘visible, high-value structures’ are not taxed. Ultimately, consistent with the Tiebout hypothesis,<sup>134</sup> we may assume that the nominal rate of an LVT would not be the critical concern for taxpayers, who ‘may be prepared to endure high nominal rates if they are satisfied with effective tax rates and if they receive acceptable levels of government services in return’.<sup>135</sup>

### 3.5.4 Lack of Understanding

Robert Keall argues:<sup>136</sup>

... resource rental is not just another tax ... it is the alternative to taxes on endeavor. Widespread understanding of this crucial point provides the political dynamic essential for the ultimate adoption of a thoroughgoing resource rental system of public revenue.

Unfortunately, for its proponents, LVTs are not generally understood.<sup>137</sup> Indeed, even at the height of enthusiasm for the Georgian single tax, his ‘sophisticated arguments ... were understood only by a few in New Zealand and accepted by fewer’.<sup>138</sup>

<sup>130</sup> David Brunori, *Local Tax Policy: A Federalist Perspective* (The Urban Institute, 2007) 7.

<sup>131</sup> Cf Goldsmith, above n 28, 222 on the historical ritual of writing out an annual income tax cheque. The broad demise of the cheque as a form of payment has probably reduced tax visibility, particularly for local rates.

<sup>132</sup> For example, Richard Bird argues that California’s property tax-limiting Proposition 13 was attributable to increased visibility, rather than an increase in overall burden. See Richard M Bird, *Financing Canadian Government: A Quantitative Overview* (Canadian Tax Foundation, 1979) 41. See, also Amotz Morag, *On Taxes and Inflation* (Random House, 1965) 21 on the political desirability of invisible taxes. But, compare with the *Report of the Royal Commission on Taxation* (‘Carter Commission’) (Queen’s Printer, 1966) vol 5, 36 on the democratic desirability of visible taxes.

<sup>133</sup> Franszen, above n 92, 47.

<sup>134</sup> C M Tiebout, ‘A Pure Theory of Local Expenditures’ (1956) 64 *Journal of Political Economy* 416, 424 proposed that, under conditions of full ‘consumer-voter’ mobility, people will select areas to live, based on their preferences for local government revenue-expenditure patterns.

<sup>135</sup> Franszen, above n 92, 47.

<sup>136</sup> Keall, above n 26, 437.

<sup>137</sup> Bourassa, above n 111, 196.

<sup>138</sup> Goldsmith, above n 28, 84.

### 3.5.5 Political Plausibility

In rating systems, a change from a capital to a land base creates winners and losers;<sup>139</sup> who loses or wins may impact on political discourse: a shift to a national LVT would amplify those currently localised concerns. Thus Carter and Matthews caution ‘while the better off tend to own the most expensive residential property, there are many middle class owners too, so reform has to be approached cautiously, especially given the bruising many home-owners took from the housing bubble’. According to Sally Kwak and James Wak, Hawaii was able to introduce an LVT because, despite the traditional political power of landowners, they were small in number, whereas ‘there were many more people who would gain’.<sup>140</sup> In contrast, assessing a Japanese LVT aimed at curbing soaring property values, Hiromitsu Ishi concludes ‘the new land tax was emasculated by many modifications that were made for political reasons’.<sup>141</sup> Comparable compromises could be expected in New Zealand.<sup>142</sup> Approximately one third of New Zealanders live in Auckland and ‘would be hammered by a proposed land tax, facing an annual bill running into thousands of dollars’.<sup>143</sup> Such concerns might be allayed if a radical change in the tax system, from comprehensive income to a land value base, were phased-in over a long period of time: for example, payment of LVT by the elderly, who often have high value land holdings but low incomes, could be deferred until they sell or bequeath their property.<sup>144</sup>

## 4. CONCLUSION

In this article, we have outlined the principal arguments for and against land value taxation. LVTs promise a radical form of equity that purports to tax the community-generated surplus that individual land owners enjoy. Economists have traditionally considered such a tax efficient, and, in the light of the global financial crisis, renewed interest has been shown in its potential for promoting economic stability. Conversely, LVTs are poorly understood; they are, for example, commonly seen as a form of property tax, which their proponents vigorously oppose. Should, then, New Zealand introduce a national LVT? The answer to that question depends on the outcomes sought. If the goal is to shore up a gap in the comprehensive income tax base, the answer must be negative: from a horizontal equity perspective, a CGT is a better and more obvious option.<sup>145</sup> However, if the goal is a radical shift from taxing endeavour to taxing the unearned increment inherent in immovable property, any answer must be

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<sup>139</sup> See Auckland Council, above n 75 for an analysis of changes resulting from the shift from land (and annual value) to capital valuation.

<sup>140</sup> Kwak and Mak, above n 98, 10.

<sup>141</sup> Hiromitsu Ishi, ‘Land Tax Reform in Japan’ (1991) 32(1) *Hitotsubashi Journal of Economics* 1, 19.

<sup>142</sup> Cf how the Coleman-Grimes LVT model was watered down by the Tax Working Group. See above nn 86 and 87.

<sup>143</sup> Anne Gibson, ‘Land Tax – What It Could Mean for You’ *The New Zealand Herald* (Auckland), 30 January 2010, A1.

<sup>144</sup> See Lindholm, above n 99, 154-155 on different phasing-in options.

<sup>145</sup> The Tax Working Group’s analysis of a land tax appears somewhat cursory. (See Tax Working Group, above n 5, 50-51). Perhaps its members realised that their recommendation lacked political plausibility and it was, indeed, duly ignored by government.



more tentative.<sup>146</sup> On the one hand, LVTs are theoretically attractive, particularly from an economic efficiency perspective, but, on the other hand, they are politically unattractive, and as McCluskey and Franzsen observe:<sup>147</sup>

Despite the apparent merits and demerits of a land value tax from a theoretical point of view, the choice of the tax base is more often based on the very specific circumstances faced by the relevant taxing authority. Socio-political views, historic factors, as well as practical realities seem to be the deciding factors.

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<sup>146</sup>As Steven M Sheffrin, 'Fairness and Market Value Property Taxation' in Roy Bahl, Jorge Martinez-Vazquez (eds), *Challenging the Conventional Wisdom on the Property Tax* (Lincoln Institute of Land Policy, 2010) 241, 249 observes, 'two individuals with equal wealth could easily have different allocations of that wealth between real property and all other assets'.

<sup>147</sup> McCluskey and Franzsen, above n 17, 15.