Tax Facts

A knowledge-based series by the Tax and Transfer Policy Institute

What is Land Tax?

In Australia, land tax is levied by states and territories on the owners of land. Land tax can be applied as a percentage of the value of the land itself (unimproved land value), the value of capital improvements (e.g. buildings) or as an aggregate of both the land value and capital improvements.

Why land tax?

Land is one of the four main tax bases for an economy (the others being corporate income, personal income, and consumption). Land is a desirable tax base because it acts as a store of wealth, it is immobile and it is a source of economic rents (see **Tax Fact #8**) in an economy.

To tax wealth

By taxing land it is possible to tax a person's wealth. Many societies, both now and in the past, have taxed wealth held in land. Particularly in the past, this was relatively easy due to excellent records of land ownership and values as opposed to relatively scarce records for other stores of wealth. Land is uniquely immobile because land overseas is not a useful substitute if someone wishes to live or operate a business in Australia. Furthermore, land does not shift overseas like capital or reduce effort in response to taxation like income.

To tax economic rent

When a government spends public money on infrastructure projects (e.g. roads, rail lines), improved services (e.g. health and education) and better community facilities (e.g. public parks) the land surrounding these investments increases in value. While these improvements are paid for by all taxpayers, the resulting gains in land value accrue to private property owners in those areas. Land tax can be used to recoup the costs of government expenditure that result in increased land values. Economic rent earned by private property owners is also reduced or removed entirely, more equitably distributing the costs and benefits of government spending.

Work hard or get lucky?

Claire and Warwick purchase land to live in for $600,000 in an established suburb. The following year the state government announces an improved road network from the city centre to their suburb as well as a new tram line that will be built with a stop two minutes away from their door. The local government announces the following year that they will be turning a long-held parcel of land into a large public park. Following the completion of these projects Claire and Warwick sell their land for $1,000,000. How much of the $400,000 of increased value should Claire and Warwick receive? Should this amount be taxed more, or less, than if they had worked full-time to earn the same amount of money?

In Australia, as owner-occupiers, the couple would typically pay no tax on the $400,000 gain in the land value. If, instead, the couple had earned $400,000 through full-time work they would expect to pay over $130,000 of tax. A land tax would serve to indirectly tax this income. For example, a land tax, levied each year based upon the value of the land, with a rate of 2% would recoup the $400,000 over the next 50 years.

Is land tax a good tax?

From a system design perspective (see **Tax Fact #1**), land tax is a highly desirable form of taxation.

Resilience – land tax provides a steady, predictable stream of income to governments that provides greater certainty to meet expenditure requirements.

- This steady stream of revenue increases the rating on government bonds due to the strong and stable underlying income stream, as opposed to lumpy and inconsistent streams such as stamp duty that depend on housing market activity in a given year.

Simplicity – although more complex calculations can be used, simple percentages of the unimproved land value (which are assessed by the government) are one of the simplest forms of taxation.

- For the taxpayer, it is a simple tax. The government assesses the value of the land and sends the property owner the bill without taxpayer effort.

- For the government, it reduces administrative costs because land is already valued in Australia for local government rates, which are collected to help fund local infrastructure and services. As a result, a broad based tax, that is applied to all land, could easily leverage existing land valuations.

Fairness – broad-based land tax with no exemptions helps ensure both horizontal and vertical equity.

- Horizontally, the system ensures that property owners of land, valued at about the same level, will be taxed equally.

- Vertically, a flat rate for all achieves proportional vertical equity; property owners with higher valued property pay more tax dollars. But a society could also choose to have a progressive rate that accounts for the total holdings of an individual or entity, or increases with the value of the land.

Prosperity – land taxes help ensure that land is used optimally, resulting in a more productive economy.

- For instance, imagine three identical pieces of land with the same amount of land tax payable. One is used for commercial purposes, generating income that easily covers the cost of land tax and provides profits. Another is an apartment block, where individual owners are able to share the cost of land tax. A third piece of land has a three bedroom, single storey house. The high cost of land tax creates an incentive for the owner of the house to develop or sell the land to make better use of it. Through this effect, land is used more optimally to create greater societal benefits.

How much value is there in land in Australia?

In 2019 the ABS estimates that there is $4,400 billion of residential land, $540 billion of commercial land, $360 billion of rural land and $300 billion of other land in Australia **[1]**. This provides a potential tax base of $5,660 billion of land.

For scale, a 1% tax on land could replace the GST or the customs/excise system. A 2% land tax could raise as much as corporate income tax. A 4% land tax could entirely replace personal income tax.

At the extreme, one could use a 9% land tax to replace the entire federal tax system and a 10% land tax could replace all taxes, including federal, state and local government.

How is land and property currently taxed in Australia?

Land and property are taxed at three different levels in Australia:

1. Land tax on investment properties is levied by state governments and the ACT. In 2018-19 there was $10.7 billion raised in land taxes by states and the ACT (NT does not tax land), this equates to a 0.2% average tax on land **[2]**.
   a. Across Australia, land tax is applied by states and territories to either the unimproved land value or the aggregate value of the land and capital improvements **[3]**.

   b. Although all states and territories (except the Northern Territory) have a land tax, exemptions provided to individuals who own and live in their own home (owner-occupiers) results in a small set of property owners from whom tax is collected. The key exception is the Australian Capital Territory which is in the process of introducing a broad-based land tax **[4]**.

2. Stamp duty when properties are purchased is levied by state and territory governments. In 2018-19 there was $18.8 billion raised in stamp duties on conveyancing.

3. GST when a building (e.g. houses or commercial premises) is newly built. There were $15.3 billion in gross GST payments from the building construction industry in 2017-18 **[5]**.

Rates are not considered to be a form of land or property tax, they are instead viewed as a payment for services rendered. Local governments, i.e. councils, raise revenue though rates and the majority of rate calculations are based on the value of land plus some fixed charges. $19.3 billion of council rates were levied in 2018-19 which account for 20% of state and local government taxes or around 3.5% of all taxes in Australia. This would equate to a 0.3% land tax.

How should land be taxed in Australia?

The key changes that would better align Australia's land taxes to the ideals set out above are:

1. Broader base – the raft of exemptions in the states and absence of land tax in the Northern Territory result in a narrow set of taxpayers funding a larger share of public services. This is inefficient and unfair. Particularly, due to land tax mainly being applied to investment properties, renters pay for a greater share of public services than owner occupiers. A broader base also allows for a lower rate, creating a tax whose burden is shared across the community (see **Tax Fact #3**).

2. Applied to unimproved values – it is simpler, more efficient and provides better allocation of capital across an economy to tax unimproved land values, as opposed to the aggregate of land and capital that is found across half of the country.

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[1] Table 61. Value of Land, by Land use by State/Territory, Australian System of National Accounts, cat. 5204.0**, Australian Bureau of Statistics, Commonwealth of Australia, Canberra.**

[2] Taxation Revenue, Australia, cat. 5506.0**, Australian Bureau of Statistics, Commonwealth of Australia, Canberra.**

[3] Eccleston, R., Warren, N., Verdouw, J. and Flanagan, K. (2017), **Pathways to state property tax reform,** AHURI Final Report No. 291, Australian Housing and Urban Research Institute, Melbourne.

[4] ACT tax reform program on track, Budget 2019-20**, ACT Government, Canberra.**

[5] Selected GST items, by broad and fine industry, Taxation Statistics 2017-18**, Australian Taxation Office, Commonwealth of Australia, Canberra.**

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