

# Prosper Australia (Tasmania)

Objective:  
Resource Rents to fully  
fund Public Revenue

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Department of Treasury and Finance

## Tasmanian State Tax Review 2011

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Taxation is more than just a fiscal system. How we raise our public revenue is just as important as how much is raised. It becomes a moral and philosophical matter.

It is not possible to address the questions raised in the Discussion Paper without reference points. While the principles outlined in Section 8 are very worthwhile, the questions do not always lead to the moral or philosophical values that underpin this submission. In addressing the questions, I have not delved too far into the philosophical issues, so I will open my submission with some general points, before concentrating on the questions listed in the Discussion Paper.

### The Moral Dilemma

- Taxation that is extracted from a person's labour is unjust. It is extracted by the force of the state, and can never be equitable. There can be no justice, social or economic, while the state extracts wealth from its citizens that is legally earned.
- Meanwhile, the land value that is created by the community is donated to individual landowners, with landholders with more valuable land receiving far greater benefits than those with poorer land. Renters, of course, receive no benefit at all, and are doubly disadvantaged.
- The Tasmanian society has the opportunity to create a fair and equitable system that rewards initiative and work, and does not reward or encourage sloth. A moral system of taxation could replace an immoral one. It waits in the wings, for the chance to take Tasmania forward.

### Overall philosophy

- Land value that is created by the community belongs to the community. Land value that arises from community growth and provision of services is the best and most equitable source of public revenue for financing services that will raise the value of surrounding land.
- This submission unashamedly promotes the collection of the rental value of land and natural resources for public purposes. It also advocates the collection of economic rent wherever it occurs, whether by licensing, regulation, monopoly or exclusive rights to a resource.

### In support of a Land Tax (Resource Rent)

- Land Tax is a uniquely efficient way of capturing the benefits that government infrastructure and services confer on land values;
- Land Tax has long been endorsed by economists as a perfectly efficient tax;

- Land Tax is the only tax base that cannot flee from the collector. Labour and capital can emigrate, but land cannot.
- Land Tax has a long history in Australia as a fair and equitable tax, to create a fair society;
- Land Tax cannot be shifted or avoided. It must be borne by the landholder.
- Land Tax, once established, allows purchasers of land to discount the price to the extent of the tax;
- Land Tax creates affordable housing, naturally, by reducing the land price;
- Land Tax encourages business by reducing the start-up costs associated with high land values;
- Land Tax has worked for Taiwan, Hong Kong and Singapore; it can work in Tasmania;
- Land Tax might even benefit landholders. As workers or owners of capital, they might benefit more from the reduction of taxes on their productive effort than they lose from the Land Tax;

A “Free Lunch” is available, if only we have the courage to seek it. When an efficient tax replaces an inefficient tax, a 'win-win' situation is possible.

In 2010/11, Land Value in Tasmania totals \$34 billion.

State taxes will raise \$857.7 million.

A Land Rent charge of just 3% would raise \$1.02 billion.

The money is available. It is available for collection. And a rate of 3% would leave a considerable portion of 'rent' in the hands of landholders. There are advantages for this in the transitional stage, to allow the public to understand the concept and to see the benefits. But further discussion should then be held and the question of the full rent being collected should be debated

### **The Discussion Paper**

I have worked through the questions in the Discussion Paper, and provide the following comments:

#### *Question 5.5.1.A*

*Should the State be looking to be more autonomous in its revenue sources, and seeking to be less reliant on Commonwealth transfers? If so, why?*

Tasmania needs to be more autonomous so that it controls its own destiny. Grants from the Commonwealth come with strings attached. We need, as much as possible, to have the flexibility to spend our own money as Tasmanians would like. Wealth generated in Tasmania should be retained in Tasmania. The Commonwealth has many sources of revenue available to it. It should concentrate on those, and spread the wealth to ensure all Australians are treated equitably.

#### *Question 8.1.1.A*

*Are these principles appropriate to assess the current tax system and any proposed changes, or can you identify amendments to the principles that should be considered by the Panel? If so, why?*

The principles are good. Now all we have to do is establish which tax fits those principles. That shouldn't be hard, but nor should it have been hard for the past several decades. But, apparently, it is harder than it appears, so one extra principle should apply:

- rent-seeking is to be discouraged. The collection of economic rent is the most suitable basis for taxation.

#### *Question 9.1.2.A*

*The State currently levies 14 different taxes, with payroll tax, property transfer duty, gambling taxes and land tax constituting approximately 70 per cent of the total raised. Would you support a reduction in the number of taxes, provided revenue neutrality and adherence to the principles outlined in section 8 is maintained? If so, how should the forgone revenue be raised to meet the expenditure needs of the State?*

Yes, the reduction of taxes is supported. All taxes that inhibit trade, commerce, and innovation

should be scrapped. The collection of the full amount of government-created economic rent is more than enough to offset the loss of those taxes.

*Question 9.2.2.A*

*Which features of property transfer duty work well, and which do not, having regard to the principles outlined in section 8? Which, if any, of the principles do you think are most important when considering property transfer duty, and why?*

Property transfer taxes do not work well at all. They should be scrapped. They inhibit the free movement of people within their community, and between communities. They are an affront to our freedoms.

*Question 9.2.2.B*

*The AFTS recommends replacing property transfer duty with a broad-based tax. Would you support this recommendation? Why, or why not?*

Yes, I support the recommendation. A broad based land tax that collects the economic rent will encourage land to be put to its best use. Transfer taxes inhibit that objective. As a community, it is important that land and natural resources are put to their best use, and that government does not interfere with that objective.

*Question 9.2.2.C*

*Alternatively, what changes to existing arrangements would you suggest to improve the performance of property taxes against the principles, while maintaining revenue neutrality? Why would this be better than existing property transfer duty?*

We don't need alternatives. A broad-based land tax is all we need. Of course, land-hoarders will scream for a privileged deal. It is up to government to work in the public interest, and to support the full collection of the economic rent of land.

*Question 9.2.2.D*

*What are the advantages and disadvantages of a transaction-based tax like property transfer duty? How would you rate transaction-based taxes generally against other property taxes such as land tax?? Why is this?*

Transaction taxes inhibit commerce, and the movement of labour to where it is best employed. On a broader scale, they restrict the free movement of people. They are unconscionable.

Land Tax (not in its current form) will simply collect the community generated economic rent from individual title-holders. Since they have done nothing, as individuals, to produce that rent, it is fair for the community to collect it. To the limited extent that individuals, as individuals, do contribute to the common good, then a small percentage of the uplift in land values can be left to them.

*Question 9.3.2.A*

*Which features of land tax work well, and which do not, having regard to the principles outlined in section 8? Which, if any, of the principles do you think are most important when considering land tax, and why?*

There is no need to point out the many faults in the existing system. There are too many anyway. Aggregation is dumb; it turns a land tax into a wealth tax. Similarly, progressive rates of land tax penalise people unfairly. But, rather than outline the deficiencies, I prefer to advocate for a broad-based flat-rate land tax – which is really a resource rent, and should be described that way.

*Question 9.3.2.B*

*The AFTS recommends broadening the land tax base to include all land (including principal place of residence land). Would you support such a recommendation? Why, or why not? If this change to land tax were made, how should transitional arrangements be managed?*

Yes, I support the recommendation. We all need some land to live. Some choose to occupy valuable land. If so, they will pay more, or allow someone else to use it. Nothing could be more fair, or efficient.

## **Transitional arrangements**

*Question 9.3.2.C*

*The AFTS recommends applying progressive rates based on a per-square-metre value, do*

*you support this recommendation? Why, or why not?*

*If this change to land tax were made, how should transitional arrangements be managed?*

No, this recommendation is not supported. Progressive rates are not necessary to achieve equity. We should simply charge a rate for all land, and allow the market to see who wants to pay the extra rent due on more valuable land. A progressive tax is unfair, and will lead to representations, lobbying for differential tax rates, exemptions, and eventually, to the destruction of the system. If the system is set up as an efficient, equitable system, there would be none of that discussion, and the revenue source would be guaranteed into the future.

*Question 9.3.2.D*

*Should land tax be applied to individual land holdings, rather than to aggregated land holdings? What are the positive and negative implications of a proposal to abolish aggregation?*

Land tax should be a flat rate, levied on individual holdings. Aggregation has nothing to do with a land tax, per se. It converts the tax into a wealth tax. I cannot think of any reason to continue it.

*Question 9.3.2.E*

*Alternatively, what changes to the current land tax arrangements would you suggest to improve their performance against the principles, while maintaining revenue neutrality?*

*Why would this be better than existing arrangements or the options above?*

Keep it simple. A flat-rate broad-based tax (rent) is all that is required. The concept is easily understood (if not universally accepted – some people do not want to pay their share!). What could be fairer than paying for the piece of earth that you choose to occupy?

*Question 9.3.2.F*

*As most local government rates are based to some extent on land value, would you favour integration of land tax and local government rates as proposed by the AFTS? Why, or why not?*

*How could this be achieved administratively, and what implications would arise from councils and the State directly sharing a tax base?*

Yes, the recommendation is supported. Rates and land tax are basically the collection of the rental value of land – only a small part, granted, under existing systems, but an integration would allow for other taxes and user charges to be reduced as the land tax rate is increased to collect the (nearly) full rental value of the land.

I would prefer the tax to be collected at the local government level and any surplus above local government needs should be passed upwards. That would give more control of finances to local communities, and since it is their efforts that generate the surplus, that is fair.

*Question 9.4.2.A*

*Which features of payroll tax work well, and which do not, having regard to the principles outlined in section 8? Which, if any, of the principles do you think are most important when considering payroll tax?*

Sorry; I cannot support Payroll Tax in any shape or form. It inhibits business, and is bad for the community.

*Question 9.4.2.B*

*The AFTS recommends the introduction of a broad-based cash flow tax and the removal of some State taxes, including payroll tax. Do you support this recommendation? Why, or why not?*

*How do you envisage a cash flow tax could be applied?*

I do not think a cash flow tax is much improvement on a Payroll Tax. We don't need either.

*Question 9.4.2.C*

*Because of the relatively high tax-free threshold, only a small proportion of businesses that operate in Tasmania pay payroll tax. Would you support lowering the tax-free threshold to broaden the tax base if this was accompanied by a lowering of the payroll tax rate? Why, or why not?*

Lowering the threshold would mean that more businesses would face the difficulty of paying

Payroll Tax. That is the opposite of what is required. Fewer businesses, preferably none, should pay Payroll Tax. In the words of some well-known rent-seekers, "Axe the Tax".

*Question 9.5.2.A*

*The AFTS recommends that insurance duty be abolished and the revenue foregone be replaced by alternative taxes? Do you support this recommendation? Why, or why not?*

It is a disincentive to insure, and that must be bad, Scrap it.

*Question 9.5.2.B*

*What alternative to insurance duty would you suggest to improve performance against the principles outlined in section 8, while maintaining revenue neutrality? Why would this be better?*

A broad-based Land Tax is the ideal alternative. It collects revenue generated by the community, and could be used to enhance the community's assets.

*Question 9.6.2.A*

*Gambling taxes are unlike most other State taxes because they are not paid directly by the community, but by licensed operators. Which features of Tasmania's gambling taxes work well, and which do not, having regard to the principles outlined in section 8? Which, if any, of the principles do you think are most important when considering gambling taxes?*

No comment.

*Question 9.6.2.B*

*The AFTS recommends that gambling taxes should be reviewed to ensure that they are focused on recouping the economic rent generated by the monopolistic conditions allowed through government restrictions. Do you support this recommendation? Why do you support, or not support, this recommendation?*

Yes, the recommendation is supported. Taxing Economic Rent is efficient, and does not penalise labour or capital. It should be fully collected wherever it occurs.

*Question 9.6.2.C*

*Alternatively, what changes to gambling tax arrangements would you suggest to improve performance against the principles, while maintaining revenue neutrality? Why would this be better than Tasmania's current gambling taxes?*

No comment.

*Question 9.7.2.A*

*Which features of Tasmania's motor taxes work well, and which do not, having regard to the principles outlined in section 8? Which, if any, of the principles do you think are most important when considering motor taxes?*

Motor Tax and Registration fees are OK, and could be retained. Transfer of registration taxes are just a tax-grab. User charges would be better.

*Question 9.7.2.B*

*Do you believe that motor taxes should be seen as a user charge and based on the use of the State's roads and the environmental impact, rather than simply on the ownership of a motor vehicle? Why, or why not?*

I favour user charges because greater usage of the roads means more wear and tear. User fees would also discourage drivers from wasting precious fuel, and polluting the atmosphere.

*If you agree with a user charge system, how would you propose such a system should operate, and what other opportunities are there to apply this principle?*

I have no expertise in this, but paying taxes at the petrol bowser seems to be the logical means of collection.

*Question 9.7.2.C*

*The AFTS recommends that the compulsory Motor Accidents Insurance Board (MAIB) premium included in your annual motor registration fees should be based on the owner's risk profile or accident history, which is similar to the approach taken by insurance companies, rather than on the type of vehicle registered? Do you support this*

*recommendation? Why, or why not? If you support this recommendation, how should the MAIB premium be implemented?*

Yes, I agree with the proposal. Many drivers never use the MAIB system, but pay the same as irresponsible drivers who cause many injuries.. I do not have particular views on implementation.

*Question 9.7.2.D*

*Alternatively, what changes to the current motor tax arrangements would you suggest to improve performance against the principles, while broadly maintaining revenue neutrality? Why would this be better than current motor taxes or the options above?*

No comment.

*Question 9.8.2.A*

*The AFTS recommends the use of targeted spending programs over the use of concessions to achieve environmental outcomes. Do you support this recommendation? Why do you support, or not support, this recommendation?*

I agree with AFTS that tax concessions are not transparent. Direct subsidies, or other spending programs are more suited to a democratic society.

*Question 9.8.2.B*

*What taxing arrangements that meet the principles outlined in section 8 could be introduced to achieve environmental outcomes, while maintaining revenue neutrality? Do you think that State taxation arrangements are a sensible means by which to achieve environmental outcomes? Why, or why not?*

The Federal government will lead the charge for environmental taxes. There may be scope for States to work alongside those arrangements to complement them where Federal jurisdiction is weak. States should be allies in a common cause.

People want to go green, but not if it means additional taxes. Revenue associated with any new government initiative, green or otherwise, should not be new taxation, but always used to reduce other taxes by equal amounts. A revised, efficient Land Tax is the only fair means of achieving this.

*Question 9.9.1.A*

*Are all charities being treated equitably as far as tax concessions are concerned? If not, how should this be addressed?*

I don't know enough about this. In a world where equity is the norm, and all people are given equal opportunities to natural resources, there would be little need for charities. Tax concessions hide the real problems. I prefer direct subsidy, so everyone knows who gets what.

*Question 9.9.1.B*

*What do you understand to be the basis on which charities are granted a tax-free status, and is it clearly understood and appreciated by the community? Should the consideration of community benefit always be more important than simplicity and the risk of creating opportunities for tax avoidance?*

Most people think of charities as Red Cross or Lifeline. They would not know of the thousands of other groups who are able to receive concessions through the tax system. Charities should be 'real', and accepted by the whole community as being beneficial to them. That could exclude some of the current fringe recipients. Transparency and public debate is required.

*Question 9.9.1.C*

*In the absence of a National Charities Commission, do you believe there is an alternative method for streamlining not-for-profit sector tax concessions, and modernising and codifying the definition of a charity? If so, how would you envisage the design and implementation of this?*

Direct subsidy is better than tax concessions. Transparency is everything.

*Question 9.9.1.D*

*Should commercial ventures by not-for-profit organisations be eligible for tax concessions? Why, or why not?*

No. All businesses should compete on an equal footing.

*Question 9.9.1.E*

*Should tax concessions for not-for-profit organisations be replaced with direct government funding? Under what circumstances would this be a better funding option and why?*

That makes sense to me. Direct subsidy is better than tax concessions. It assists transparency, and allows public scrutiny of public expenditure.

*Question 9.9.1.F*

*What is the best method for incorporating the provision of tax expenditures and benchmark tax concessions into the budget and reporting processes?*

No comment.

*Question 9.10.2.A*

*How can State tax administration be changed to improve the —client experience? Are there any taxes where the —client experience is particularly good or bad?*

We don't have or need a client experience. People forced to part with their hard-earned wealth are not clients – they are victims! If we levied taxes only on land and natural resources, then people would understand that they are really paying a simple rent for the exclusive use of those resources. They would be land and resource users, paying a resource rent. Nothing could be simpler.

*Question 9.10.2.B*

*Do you believe that the Tasmanian tax system is too complex, and is this a particular concern to business? How could the Tasmanian tax system be simplified?*

Yes, it is too complex. Get rid of transfer duties, and others taxes identified earlier. Collect economic rent wherever it occurs – monopolies, licences, regulated industries and particularly land titles, and there will be no need for other taxes.

*Question 9.10.2.C*

*How can State tax administration be changed to reduce taxpayers' administrative costs? Administrative changes to which taxes would be most beneficial to taxpayers?*

More efficient taxes require less administration and collection costs. Land tax is simple to collect. Just use the existing rates system, but collect sufficient tax to replace the taxes now required for public spending.

*Question 9.10.2.D*

*There are arguments for and against nationally harmonising parts of the state tax system. For example, maintaining harmonised tax arrangements has a high administrative burden (from the states' perspective), but taxpayer compliance costs are lower. Maintaining harmonisation also means that state governments may be unable to adjust taxation policy to suit local issues.*

Land Tax can be collected at any level. I prefer it to be collected at the local level, and the surplus passed upwards. The Federal government is unlikely to allow that to happen, though, so I am happy for it to be collected at any level and shared between the three levels of government. There is plenty for everyone, with enough left over to distribute to every man, woman and child as an annual citizen's dividend.

*Do you think the benefits of harmonising some state taxes outweigh the loss of local flexibility? What are the main benefits of harmonising State taxes, and for which taxes are these benefits greatest?*

*What are the potential risks or negative consequences of harmonising State taxes?*

Whaaat?? "Harmonising" is jargon. It is not explained in the document. It is 'beyond my ken'. I am sad to see such terms used, as they have the effect of reducing public input, and lead to an 'elite' determining what is best for us mere mortals. The term should not be used.

I will conclude the submission with two brief Appendices, which are pertinent to the topic of this Review, but don't neatly fit into the questions asked.

Thank you for the opportunity to comment. I look forward to further discussions, and can make myself available for the Review Panel at any time.

Yours Faithfully

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### ***Appendix 1***

The following letter appeared in The Age on 2 February 2011.  
It refers to Melbourne land prices but the message is equally applicable to Hobart and Tasmania.

#### **Acres of wealth**

**The Age, 2 Feb 2011**

THE value of land embraced by the latest extension of the urban growth boundary has jumped from \$25,000 to \$375,000 a hectare, raising the land tax bill for the average 40-hectare lot from \$2975 a year to \$294,975 a year ([The Age](#), 1/2).

A quick multiplication indicates that the value of the 40-hectare lot has leapt from \$1 million to \$15 million. Pity the poor owner, who did nothing to deserve such a burden. And now the wicked land tax would claw back the windfall at 2.1 per cent a year. Outrageous! Much better to maintain a payroll tax on businesses that hire people, and a stamp duty on home owners who relocate to take up jobs.

Worse, the tax will force some landowners to sell. That means the land inside the urban growth boundary will actually be used for urban growth. Unacceptable! And the buyers will be riff-raff who want to build their own homes. Obscene!

With a bit of luck, the new state government will roll back the tax so that the owner of the 40-hectare lot can sit on it even longer, waiting for its price to rise even higher, at the expense of first home buyers who have ideas beyond their station.

### ***Appendix 2***

The mini-budget handed down by Premier Lara Giddings a few days ago highlights the need for a stable tax base.

Current taxes, both Federal and State, create the conditions of boom and bust by penalising capital and labour, and rewarding landholders – and, worse, land speculators. The inevitable asset bubbles that are created by the existing system eventually deflate (or bust), leading to reduced economic activity, fewer sales, and reduced GST revenue.

In the absence of speculation, land value is a primary indicator of an economy's health and wealth. The collection of the rental value of land will provide a stable, sustainable level of public revenue, without the boom and bust inherent in the current system.

With a stable tax base, the Tasmanian government would not be drawn into excessive spending in boom times, nor be faced with cutbacks and redundancies in the 'busts'.