SOUTH
AFRICAN
CONSTITUTIONAL
PROPERTY
RIGHTS
FOUNDATION

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Chairmen

The Standing Committee and the Select Committee on Finance

Dear Sirs and Madams,

COMMENT ON 2018 MEDIUM TERM BUDGET POLICY STATEMENT (MTBPS) PAGE 10

INTRODUCTION

With few exceptions tax professionals and economists agree that the most certain and efficient way to create jobs, provide access to land and stimulate GDP growth (*raising productivity* and *reducing the cost of doing business)* is to substitute personal taxes on income taxes and vat with land rents, a rates and taxes user-charge.

In fact, the Davis Tax Committee DTC agreed in principle with this in their April 2018 Wealth Tax Report. However, the DTC was drawn from professionals and academics whose livelihoods will be threatened if taxes were directed at where land is situated, not what people do on it.

Therefore, by accepting the principle recommendations of the DTC, and rejecting their frankly cynical misgivings, the state can end the subsidy of vacant and unused land prices as sec 25.5[1] and 229[2] of the Constitution stipulates.

This would mean that ZA becomes a tax haven with easily affordable land like the Eastern Tigers of Hong Kong, Singapore, Taiwan and South Korea. The problem with local and foreign direct investment then becomes not its scarcity but its abundance. And the nightmares of jobless, landless and low GDP growth will disappear.

[1] 25.5 The state must take reasonable legislative and other measures, within its available resources, to foster conditions which enable citizens to gain access to land on an equitable basis.

[2] 229 the power of Municipality to impose taxes, levies, duties and surcharges (a) may not be exercised in a way that materially and unreasonably prejudices national economic policies

THE EXAMPLE OF A LAND PRICE SUBSIDY

If your committees think that land prices are not a state subsidy then consider an offer of R6m for the land under our house in 2017.

That was fifty times more than its value in 1988. Yet we spent not one cent nor one ounce of sweat. For it is not possible to increase land prices by enlarging land, moving it to a better position, improving the view, bettering the schooling, changing the zoning, making the suburb more desirable or controlling population growth etc etc.

Meanwhile CPI increased by five times in that thirty years. Therefore, land price profits are unearned.

Ironically and during all these 30 years, a large part of my hard-earned salary, interest, dividends and profit was expropriated without compensation by income taxes and vat. I am not saying that is a worry because, as my example, us landowners do not actually pay vat and income taxes but advance cash to SARS and wait for our land prices to rise in recompense.

The problem is that onerous income taxes and vat are unconstitutional because they make land unaffordable and this increases the length of land and job queues and reduces the average standard of living by as much as R147K per family of three.

This is both irrational and unreasonable. Our comments are therefore confined to reducing vat by 50% and examining the DTC motivations for not terminating income taxes and vat altogether at an average cost (rent) of R1730/ha/month across South Africa's 122 580 000 hectares

HOW TO REDUCE VAT BY 50% TO RI74BN (2018) BY CANCELLING THE STATE SUBSIDY OF LAND PRICES ©Peter Meakin 2018[3]

The way to go here is for President Ramaphosa to announce this reduction, by decree if needs be. But insisting that Municipalities recover the R174bn by applying a rates and taxes penalty of 10 times on all vacant/unused land.

This provision is NOT an amendment to the cents-in-the-rand rates policy as sec 5 of Municipal Property Rates Act 6 of 2004. But it is required to eliminate the illegal state subsidy of land prices (sec 229 of Constitution) which *unreasonably prejudices national economic policies* of job creation, land access and GDP growth. And subsidies can be withdrawn without notice.

If owners do not pay the penalty, the state expropriates the vacant property at the nil value which unsubsidised land attracts. Then the state leases it out at market rents under perpetual tenures and with market rent reviews

HOW TO ELIMINATE THE AVERAGE HOUSEHOLD REDUCTION IN STANDARD OF LIVING OF R147 000PA PER FAMILY BECAUSE OF THE DEADWEIGHT LOSS OF INCOME TAXES AND VAT

The March 2018 Davis Tax Committee (DTC) report on Wealth Taxes (Immovable property, including land taxes, page 60) affirms how the consequences of land taxes differ from personal taxes:

> *"…a land tax may not deter production or distort the market mechanism or otherwise create a **deadweight loss**."*

The deadweight loss of taxation refers to the harm caused to economic efficiency and production by a income taxes and vat. In other words, the deadweight loss of taxation is a measurement of how far taxes reduce the standard of living among the taxed population. https://www.investopedia.com/terms/d/deadweight-loss-of-taxation.asp#ixzz5VF8tSbC5

According to Bryan Kavanagh, a professional valuer who worked in the Taxation Office and the Commonwealth Bank of Australia, the ratio of taxes to loss of GDP in western market economies is some 1:2.34. With income taxes and vat at R1.085tr (2018) and a GDP of R4600tr (Reserve Bank stats 2017) the GDP reduction averages R1730/ha/month across South Africa's 122 580 000 hectares. The loss of R2540tr GDP will be R147K per 3.5-person average family pa in 2018. A table setting out Kavanagh's calculations is attached hereto marked Annexure A.

Whilst it is difficult to imagine such a loss one quarter of the state's expenses are presently taken up in mitigating the damage done by deadweight taxes through subsidies etc. As the table below, up to R250bn per annum of state expenditure will be saved by shrinking the departments of Public Enterprise, Labour, Trade and Industry, Economic Affairs, Small Business, Agriculture, Land Reform and Rural Development. This becomes possible in tax-havens where there is no economic distortion.

POTENTIAL BUDGET SAVINGS AND EXTRA REVENUE ON SUBSTITUTION OF INCOME TAXES and VAT with 100% TAX ON LAND RENTS PHASED IN OVER FIVE YEARS						**Potential Extra Annual Rent at 2018 prices**	
2018/23 BUDGET SAVINGS							
DEPARTMENTS WHICH PRESENTLY MITIGATE THE EFFECTS OF "DEADWEIGHT" TAXES							
Child-support grant						R61	bn
Job creation and labour affairs						R23	bn
Economic regulation and infrastructure (infrastructure is self-funding)						R98	bn
Industrialisation and exports						R33	bn
Agriculture and rural development						R30	bn
TOTAL 2018 BUDGET SAVINGS iro DEADWEIGHT						**R245**	bn
2018 BUDGET EXTRA REVENUE							
Unused (and untaxed) arable and grazing land	67	m	ha	R350	pm	R23	bn
Extra payment by taxpayers for being relieved of punitive taxes and vat on work and capital (9%)	9%	pa		R1 085	bn	R98	bn
Increase in land rents once freed of income taxes and vat	9%	pa		R1 085	bn	R98	bn
TOTAL EXTRA REVENUE						**R219**	bn
TOTAL SAVINGS						**R464**	bn
BASIC INCOME GRANT							
TOTAL POTENTIAL 2018 SAVINGS + EXTRA REVENUE						R 463 750 000 000	
Number of ZA (3,5 head) Families	3,5			57 000 000		16 285 714	mi
BASIC INCOME GRANT per FAMILY						**R 28 476**	pa

EXTRACTS FROM DAVIS TAX COMMITTEE: WEALTH TAX REPORT: MARCH 2018

Immovable property (including land taxes)

Theoretically, the benefits of recurrent taxes on immovable property (and particularly a land tax) are attractive for a range of reasons:

- A land tax is generally considered to be the least distortive of all taxes and thus the least harmful to economic growth. This is based on the fact that, since the supply of land is fixed, economic efficiency is not reduced by taxing land.
- Hence a land tax may not deter production or distort the market mechanism or otherwise create a deadweight loss. Hence a land tax discourages unproductive land speculation (by reducing profits from land speculation), thereby promoting the effective use of land.
- Ownership of land is generally easy to establish, making it possible to identify who is liable for the tax and it is therefore difficult to evade.
- On the basis that it is a "presumptive tax" (i.e. the tax is levied irrespective of whether the owner of the land is in fact extracting the "economic rent" from the land), a land tax promotes and encourages the efficient use of land and discourages unproductive uses (such as simply leaving land vacant).
- Taxing land reduces the likelihood of land price bubbles (and the resulting macroeconomic instability caused by such price bubbles) by stabilising land prices.

In summary, recurrent taxation of immovable property is argued to be one of the most efficient forms of taxation from an economic perspective because it does not distort labour supply decisions, has a smaller effect on investment decisions than income tax and is difficult to avoid. The tax system can also be made progressive through rebates and differential tax rates. From a purely theoretical perspective then, the case for taxing land is very strong.

COMMENT ON DAVIS TAX COMMITTEE IN BLUE

There are, however, a number of practical and principial considerations that need to be taken into account when considering the recurrent taxation of immovable property.

The first is the concern about liquidity and the ability to pay.
Ownership of land means the owner can grow, rear, build and make things and so pay a land tax. Nature's endowment is sometimes insufficient to yield a surplus after deducting wages, the costs of production and a return on capital so there is no surplus to pay taxes.

A further difficulty with a property tax is that it singles out one asset class by only taxing one component of wealth. There is no component of personal wealth in land ownership for it is a gift. Citizens must decide how much land they need to satisfy their desires and then pay whatever anyone else might offer.

While Municipal Valuation Rolls exist, the valuation problems involved in introducing a national land or property should not be underestimated. Different municipalities use inconsistent approaches to determining property values. In addition, while some municipalities have the capacity to ensure that the valuation roll is up-to-date and

reasonably comprehensive, this is by no means true for all. This is a matter of skilling up the valuer's office. This has already been achieved in valuing improvements as Act 6 of 2004. Valuing land is easier and auctions can be used where difficulties arise

Given the difficulties that municipalities face in terms of collecting municipal rates and the extent of corruption within some municipalities, it is not clear that a national system will easily succeed. The appointment of SARS officials here will bring disciplined valuations and collection procedures.

Notwithstanding the need to address these administrative challenges, there are still good reasons to favour a national recurrent property tax as an alternative to the existing system of Transfer Duty. But transfer duty at R8.4bn pa will account for less than 1% of the income tax and vat

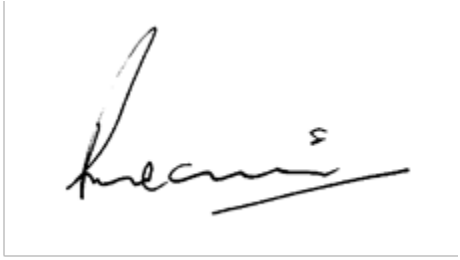
The Eighth report of the Katz Commission of Inquiry conducted a substantial investigation into the taxation of land in South Africa. The report concluded that land taxation should be the prerogative of local government policy. This was implemented through the Municipal Property Rights Act, 2004. That may be so but all the DTC suggests in its Wealth Tax Report is to ignore the threat of R147K pa per family of deadweight taxes, and ignore subsidised land prices

The issue to be addressed is thus 'can a further wealth taxation on property be justified at national level?'

If further wealth taxes are to be proposed on land and improvements, the following issues must be addressed: - There is nothing here that suggests that a single land tax should not be born.

- The transfer duty issue,
- The effect of double taxation at the local government and at national level.
- Inconsistency that may arise between local government rating policies versus wealth taxation at national level
- Complexity with regard to Business property, farming land and tribal land.
- Basis of valuation.
- The impact of the above on Government's existing policies on land redistribution, particularly the effect upon recipients of a land redistribution programme.

Best



Peter Meakin
Professional Valuer

ANNEXURE A

One of the general principles of taxation is that one should tax factors that are inelastic in supply, since there are no adverse supply side effects. Land does not disappear when it is taxed. Henry George, a great progressive of the late nineteenth century, argued, partly on this basis, for a land tax…

But it is not just land that faces a low elasticity of supply. It is the case for other depletable natural resources such as the spectrum. That is why it also makes sense, from an efficiency point of view, to tax all-natural resource rents at as close to 100% as possible.

Brian Kavanagh Calculations

Fin. year ended	GDP (2006 $m)	YoY growth	GDP growth @5.53% pa	Taxation (2006 $m)	Indicated deadweight (2006 $m)	
1972	319,259		319,259	70,119		
1973	328,766	2.98%	336,900	70,749	8,134	
1974	342,597	4.21%	355,516	77,492	12,919	recession
1975	345,094	0.73%	375,160	85,322	30,066	
1976	355,793	3.10%	395,890	90,652	40,097	
1977	367,583	3.31%	417,765	94,411	50,182	
1978	370,987	0.93%	440,849	94,750	69,862	
1979	386,752	4.25%	465,209	95,385	78,457	
1980	398,625	3.07%	490,914	101,004	92,289	
1981	412,426	3.46%	518,040	108,656	105,614	
1982	424,848	3.01%	546,665	112,791	121,817	recession
1983	415,618	-2.17%	576,871	112,335	161,253	
1984	433,872	4.39%	608,747	113,824	174,875	
1985	457,846	5.53%	642,384	127,987	184,538	
1986	478,142	4.43%	677,879	134,022	199,737	
1987	489,496	2.37%	715,336	141,249	225,840	
1988	514,719	5.15%	754,863	148,271	240,144	
1989	533,866	3.72%	796,573	152,351	262,707	
1990	554,479	3.86%	840,589	156,194	286,110	recession
1991	551,620	-0.52%	887,036	156,579	335,416	
1992	551,814	0.04%	936,050	149,281	384,236	
1993	571,295	3.53%	987,773	151,235	416,478	
1994	595,968	4.32%	1,042,353	158,587	446,385	
1995	622,082	4.38%	1,099,949	172,468	477,867	
1996	647,656	4.11%	1,160,728	184,111	513,072	
1997	672,612	3.85%	1,224,865	196,067	552,253	
1998	703,839	4.64%	1,292,546	199,857	588,707	
1999	739,169	5.02%	1,363,967	213,482	624,798	
2000	769,157	4.06%	1,439,334	226,972	670,177	
2001	784,188	1.95%	1,518,866	236,941	734,678	
2002	813,481	3.74%	1,602,792	233,157	789,311	
2003	839,512	3.20%	1,691,356	248,564	851,844	
2004	872,855	3.97%	1,784,813	259,126	911,958	
2005	896,366	2.69%	1,883,435	269,784	987,069	
2006	922,494	2.91%	1,987,506	274,157	1,065,012	
Peak growth		5.53%	32,178,775	5,417,932	12,693,899	
i.e.	**$2.34** excess burden for every tax dollar					