Expanded version.

# SUBMISSION TO

# ECONOMIC PLANNING ADVISORY COUNCIL OF THE COMMONWEALTH OF AUSTRALIA

MARCH 1985

> "My Lords and Gentlemen, a direct tax of 7% would be a dangerous experiment and one likely to incite revolt, but there is a method whereby you can tax the last rag from the back, and the last bite from the mouth without causing a murmur against high taxes, and that is to tax a great number of articles of daily use and necessity, so indirectly that the people will pay without knowing it. Their grumblings will then be of hard times, but they will not know that the hard times are caused by tax action".
>
> William Pitt.

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## THEME OF THIS SUBMISSION

Income tax should not be replaced by indirect taxation but by Land Value Taxation. The potential for revenue from this source amounts to tens of billions of dollars.

This field for revenue has been grossly ignored. Now is the appropriate time for that omission to be rectified.

THE GEORGIST COUNCIL OF AUSTRALIA is the national affiliation of organizations within the Commonwealth which have constantly promoted tax reform in this country for over an hundred years, consonant with the social philosophy of Henry George.

They have argued that, despite new technologies, the world's economies will retrogress until such time as the value of land is accepted to be the primary source for the raising of national revenues.

It appears to be the conventional wisdom - "forty thousand Frenchmen can't be wrong"- that indirect taxes are the only practical alternative to income tax. The Prime Minister has said as much. So has the Federal Treasurer. So has the Shadow Treasurer. So has the Australian Business Council. So have various other leaders within the community. There are others again who, in opposing both income tax and increases in indirect taxation, look for alternatives in wealth taxes, capital gains taxes, death duties, and so forth.

The Georgist Council of Australia will be unique in suggesting that the forty thousand Frenchmen and other cohorts are wrong, because ALL of them have signally failed to even mention the most important and practical alternative source for public revenue. That alternative source is the potential, running into tens of billions of dollars, to be found in the rental value of land throughout Australia. It is the contention of this Council that the locational value of land is a value that is uniquely generated by the very presence and activities of the people of Australia, taken as a whole as a corporate community. Therefore, these land values should, in ethics, in logic and in practical economics, be utilised as the prime source for public revenue.

The rental value of land arises:-

1. from the relative natural advantages of land.
2. from the presence and activity of all the people collectively
3. from the necessary and desirable services of Government which enable people to live and work in closely settled communities.

This value therefore, which is not attributable to the efforts of individual owners or occupants, is a social asset and, as such, is natural public revenue.

Strictly speaking, land is not 'private property'. Rather, under fee simple, it is held by a permanent licence to occupy, issued by the State granting the privilege of holding part of the country for private use, to the exclusion of everyone else. It is by this means that locational advantage is received and enjoyed in an ongoing fashion - an advantage that grows as the community grows. It is a continuing government-granted privilege at the expense of the excluded remainder of the community. This disadvantage can be compensated for by the titleholder ('licence' holder) being required to contribute to revenue according to the worth of the privilege. This is the ethical basis for site value taxation.

In the simplest terms, community growth increases the locational utility of land, both urban and rural, and thereby places a fiercely competitive rental premium upon land thus advantaged. This rental premium represents a potential cash flow as the whole community's distributive share of Gross National Product, and is thus fairly construed as the prime, natural source for revenue. How great is the potential for that cash flow is discussed in the appended monograph LAND RESOURCE RENTAL TAXATION IN AUSTRALIA by A.R. Hutchinson.

It is when this revenue, is NOT diverted, from year to year, into the public sector, that it flows into private pockets as a windfall, unearned income. Then, being treated as the dividend on a private investment (in land), it is privately capitalized into land price.

Thus the paradox arises that the greater the growth of the community, the greater the risk it runs of strangling its own further growth by the unbridled speculation that takes place in the price of land, because the mandatory fiscal tool for channelling land rentals into the public sector has not been invoked. And, as has happened so repeatedly, the land boom has always led to a crash when land prices have reached a height that real levels of production cannot possibly sustain.

We see this as a major cause for the difficulties both in Australia and New Zealand - and, for that matter, for the whole of the Western-type economies. It is truly their "Achilles' heel".

We consider that the Keynesian analysis is a false one because it completely fails to understand the above reason for the fall-off in effective demand. And, furthermore, it is a situation that can only be exacerbated by the policy being bruited abroad of advocating increases in indirect taxation.

There is no possibility of tinkering with the present tax structure which ultimately penalises production, without increasing the cost of Government and discouraging industry and employment.

No form of industry could survive if it failed to charge for the goods it has produced or the services it has rendered, as the Government attempts to do in failing to collect the socially generated rental value of land for revenue.

Private industry cannot make good its lost revenue by taxing its customers (in proportion to their income or on any other basis).

It cannot pay for its costs by the issue of a self-generated fiduciary currency.

It cannot borrow money legally, knowing that it is insolvent or unable to repay the loans.

It cannot pass on its costs for future generations to pay.

Nor should Government!

Only a radical change in the fiscal structure by the adoption of sound business methods can have any prospect of success.

Thus we confidently assert that our recommendations to steadily increase the proportion of revenue drawn from the site value of land as contrasted with the onerous taxes currently imposed, meets the requirements of intellectual integrity with respect to the science of economics; and we would expect that any rejection of our recommendations should be required to satisfy those same rigid requirements, and not fall back upon mere political expediency.

We are thus appalled that the Federal Treasurer should assert that there is no alternative to V.A.T. for the raising of some ten billions of dollars. It is this kind of political manifestation that we are constrained to oppose head on.

But we are NOT a lobby group. Our submission is intended to cover the bandwidth of the livelihood of the Australian people.

It is for these reasons that this Council promotes the social analysis of Henry George and its practical application to economic management. "Land Value Taxation" is that practical measure. It is the mandatory fiscal tool that must be employed to ensure that the economic benefits that flow from growth in the Australian population, in technology, in the diversified skills within our midst, and in efficient administration, are shared in by the Australian people at large. In the very process of raising national revenue from this source, that major social objective will be achieved. Nor can it be achieved otherwise!

A further paper is appended, entitled WHAT CHANGES SHOULD BE MADE IN THE TAXATION SYSTEM OF THE COMMONWEALTH OF AUSTRALIA? It was first presented to the Commonwealth Taxation Review Committee of Inquiry in 1973. Now, one recession later, it is republished and re-presented. The principles set out therein are as relevant to this decade as they were to the nineteen seventies. The pity is that they weren't heeded.

In common with most western countries, our economy is characterised by unacceptably high levels of unemployment, inflation and interest rates. Sections of the Australian community are becoming inured to this situation in the apparent belief that it is a cost of technological progress. At the same time, Australian business has generally had to tolerate low yields on capital investment.

But inflation, interest rates and unemployment are not the result of technological progress. Inflation is the result of debasement of the currency - which is a form of dishonest taxation long practised by governments. Interest rates become higher when lenders find that they have to allow for an extra amount to cater for the debasement of the purchasing power they have lent, and when borrowers can afford to pay higher than 'economic' interest because they expect, and usually get, increased money income when currency is debased. Technology has always cheapened the production of goods and allowed more return from effort. The huge advances in technology have not increased unemployment in the last two centuries. Technology has created new jobs. BUT employment opportunities have been restricted by all sorts of monopolies - licences, registrations, quotas, and (to quote Winston Churchill) the mother of all monopolies - monopoly in the privilege of owning land, be it city, suburban or rural.

Along with many others we believe that the Australian taxation system compounds our economic problems. It is a major DISincentive to labour and capital; it has an inordinate scope for avoidance by certain categories of taxpayers - thereby heaping injustice upon injustice; and it induces policies of currency debasement. For these reasons we believe that thorough-going taxation reform is essential.

We argue for the introduction of a LAND VALUE TAX (L.V.T.). By this we mean a levy on the enormous potential in Australia for economic rent. This potential springs from all of the differential advantages inherent in the locations that might be utilized by labour and capital for any purpose. It is demonstrated, for all the world to see, in property (land) values throughout the Commonwealth. Such a levy would:

a) decrease unemployment
b) allow reductions in both direct and indirect taxation, and
c) avoid the need to impose wealth taxes, capital gains taxes and death duties.

Furthermore, it would alleviate the compulsion of government to resort to inflation in the attempt to stave off unemployment. Not only would it provide a positive incentive to production, but it would enable the decimation of those frank DISincentives to production which ALL taxation upon labour and capital imposes.

It is well nigh incredible that despite the centuries-old manifestations of the pre-eminent economic power which the ownership of land exerts over the conditions for employment of labour and capital, there is nevertheless a deathly silence on the issue in most political circles, and for political rather than for rational economic reasons. For too long Keynesian pump-priming has been the attempted let-out. But it has always failed - like repeated infusions of a drug the effect of which wears off - and it has always resulted in inflation. Moreover, Keynesians now dismally admit that they EXPECT unemployment to continue for many years!

The central thrust of this submission, therefore, is that so far from indirect taxes or raised consumer charges being either the most desirable or least inequitable of the tax alternatives, the thinking that supports them entirely ignores the obvious fact that the land rentals of this nation are socially generated; are consequently the natural, logical and ethical primary source for revenue; and that quantified as running into tens of billions of dollars per year, they could, and should, substantially replace an equivalent amount of those arbitrary taxes dissatisfaction with which have prompted this whole Inquiry.

Despite the overlay of the sophistications and diversities within the structure of our society, the "land" question remains the bedrock question; we can't really build castles in the air! The avidity with which there is perpetual jockeying in real estate is witness to the realities of the situation.

Land Rights for Aborigines is a very live issue.But are the rest of the Australian community really any less LAND dependent than they are?

A very substantial part of the value of stocks and shares comprises the value of real estate investment. It could be a reasonable projection that 90% of Australia is owned by 5% of Australians, for only about 5% of Australians hold any shares in companies. The implication is that 5% of the population would be paying 90% of the site value levy. So instead of the rich getting progressively richer by virtue of ever-soaring value in land ownership whilst the poor become ever relatively poorer, the great 'equalizer' will have been applied.

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We emphasise that the attainment of the equitable level of common sharing in the Australian community cannot come from arbitrary taxation, and thence re-distribution, of privately earned incomes; but it <u>can</u> come from the normative collection, and thence re-distribution, of socially generated rent by the mechanism of site value taxation. For locational rent is that natural distributive share of total wealth production which is earned by the community collectively. It is correlative with wages and interest, which are the returns natural to the contributions made by labour and capital. Thus there can be social sharing in a fund to which every Australian citizen, by his or her very presence, contributes......

"Here, let us imagine, is an unbounded savannah, stretching off in unbroken sameness of grass and flower, tree, and rill, till the traveller tires of the monotony. Along comes the waggon of the first immigrant. Where to settle he cannot tell – every acre seems as good as every other acre ... Tired out with the search for one place that is better than another, he stops – somewhere, anywhere – and starts to make himself a home ... It is an easy matter for him to get enough to eat; but beyond this his labour will only suffice to satisfy the simplest of wants in the rudest way. Soon there comes another immigrant ... He settles by the side of the first comer, whose condition is at once greatly improved, and to whom many things are now possible that were before impossible, for two men may help each other to do things that one man could never do.

Another immigrant comes, and, guided by the same attraction, settles where there are already two. Another and another, until around our first comer there are a score of neighbours. Labour has now an effectiveness which, in the solitary state, it could not approach ... A blacksmith and a wheelwright soon set up shops, and our settler can have his tools repaired for a small part of the labour they formerly cost him. A store is opened, and he can get what he wants as he wants it; a post office, soon added, gives him regular communication with the rest of the world. Then comes a cobbler, a carpenter, a harness maker, a doctor, and a little church soon arises. Satisfactions become possible that in the solitary state were impossible ... Population still keeps on increasing, giving greater and greater utility to the land, and more and more wealth to the owner. The town has grown into a city – a St. Louis, a Chicago or a San Francisco – and still it grows. Production is here carried on upon a great scale, with the best machinery and the most favorable facilities; the division of labour becomes extremely minute, wonderfully multiplying efficiency; exchanges are of such volume and rapidity that they are made with a minimum of friction and loss ... Hither run all roads, hither set all currents, through all the vast regions about ... Here are museums and art galleries, collections of philosophical apparatus, and all things rare and valuable, the best of their kind.

So enormous are the advantages which this land now offers for the application of labour, that instead of one man with a span of horses scratching over acres, you may count in places thousands of workers to the acre, working tier on tier, on floors raised one about the other, five, six, seven and eight stories from the ground, while underneath the surface of the earth engines are throbbing with pulsations that exert the forces of thousands of horses ... The productive powers which density of population has attached to this land are equivalent to the multiplication of its original fertility by the hundred fold and the thousand fold. And rent, which measures the difference between this added productiveness and that of the least productive land in use, has increased accordingly.

It is a well-provisioned ship, this on which we sail through space. If the bread and beef above decks seem to grow scarce we but open a hatch and there is a new supply, of which before we never dreamed".

"Here is a natural law by which, as society advances, the one thing that increases in value is land – a natural law by virtue of which all growth of population, all advance of the arts, all general improvements of whatever kind add to a rent fund that both the commands of justice and the dictates of expediency prompt us to take for the common uses of society. Now, since increase in the rent fund available for the common uses of society is increase in the gain that goes equally to each member of society, it is clear that *the law by which land values increase with social advance*, while the value of the products of labour do not increase *tends*, with the advance of civilization, *to make the share that goes equally to each member of society more and more important* as compared with what goes to him from his individual earnings and thus to make the advance of civilization lessen relatively the differences that, in a ruder state of society must exist between the strong and the weak the fortunate and the unfortunate."

- Henry George

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,Before this submission proceeds to its own specific recommendations, we wish to make some

OBSERVATIONS ON THE LIMITATIONS OF OTHER TAXATION MODES:

1. INCOME TAX: current inequitable incidence - it falls indiscriminately on both earned and unearned incomes; wide scope for avoidance/evasion; complex to administer; costly to collect; DISincentive to both labour and capital; encourages speculation in property because of the open-ended, tax-free, capitalized gains in land price that are currently possible without actual realization of income.

2. VALUE ADDED TAX: falls heavily on all consumers, whatever their income; bureaucratic; cumbersome; enormous unproductive labour cost of the accounting processes involved; in inevitably adding to prices it will exacerbate demands for wage increases and other arbitrary compensations.

3. SALES TAX: first levied by the Scullin Government as a 'temporary' measure, in order to provide needed finance during the depression, is a regressive measure.
It makes no difference whether penalties are introduced at the point of sale or at any or all stages of production, the effect in discouraging production and employment is the same.
The finished product on one industry is the raw material of another, and exemptions therefore which apply during the production of wealth are complex and costly to control.
It is most difficult to distinguish between sales for production or consumption. If applied to the former the tax would snowball to an alarming extent.
To apply sales tax to the necessities of life would have a harsh effect on working people.
To apply sales taxes to luxuries would discourage production and worsen unemployment in the industries concerned.
How does one apply the criteria to distinguish between luxuries and necessities, in any case?
There is no way of increasing revenue from sales tax without adversely effecting the economy, pricing the Nation out of World markets and restricting employment opportunities.

4. CAPITAL GAINS: inadequate distinctions between investment of capital in job-creating production and investment in liens upon other people's production - such as is typified in investment in the prospect of gains in the price of land, or from unearned privileges such as the holding of restrictive quotas.
   The expression "capital gain" is a misnomer. Capital depreciates from the day it is produced, due to the destructive forces of nature, the cost of housing and maintenance, the need to keep it continually employed until new technology advances faster than normal wear - (premature obsolescence).
   Only land, which is not capital, gains in value.
   If capital gains (there must be a land value content) are taxed, then capital losses must be compensated for and adjustments made for inflation.
   Revenue would be higher when least needed in boom periods, and lower or even a minus amount in recession periods when most needed.
   The whole concept is unsound.

5. SUCCESSION DUTIES: tendency to break economic units into uneconomic units; often with calamitous results; exemptions/thresholds are distorting; 'once only' incidence.

6. WEALTH TAX: is a penalty on private effort and savings and improvements, as well as on land whose value is socially generated - and does not recognize the difference; discourages building and renovating activity; complicated assessment and collection; in relation to assets testing, requires a whole army of unproductive snoopers; very limited yielder of revenue in relation to costs of collection.

The important distinction needs to be made between the earned capital gains from rendering service and thereby saving/gaining in capital assets, and the unearned gains which are really nothing more than capitalization upon community progress. Why should the former be taxed - and, in particular, taxed in a way that makes no discrimination from unearned speculative capitalization?

The PRICE of land is the capitalization figure of its annual rental value. Therefore a tax upon the rental value

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of land would be the public appropriation of the major form of economic rent - a rent which is entirely community-generated. Then why, indeed, has economic rent in the form of land rentals, not been already picked out for particular attention in relation to public revenue?

Further, it stands to reason that to the extent that rent is socialized, it cannot accrue as private income, and cannot then be capitalized, by any agency, into the form of land PRICE. In other words, land rental taxation will skim off this socially generated value before it reaches the stage of appearing as a capital (or more correctly, 'capitalized') gain.

There would therefore be much lower increments in land price, as a capitalized value, either to be taxed or to appear as an asset in pension eligibility.

The effective manner in which land rental taxation deals with unearned gains at the tap root level, makes the imposition of an arbitrary wealth tax quite unnecessary.

As a final comment, it is worthy of note that any new tax will require more public servants.

It has been estimated that the move to raise more revenue from indirect taxes would require 2,000 additional public staff and an increased army of private honorary tax collectors.

This could not be offset by a reduction in other direct taxes, but only by total abolition of a particular tax.

The number and variety of taxes should be reduced - not increased.

The government as the largest purchaser of goods and services must pay half its income in buying back its own taxes and in supporting the Welfare State, the need for which is generated by its own policies.

## OBSERVATIONS ON FACTORS FAVOURING THE INTRODUCTION OF LAND VALUE TAXATION:

1. The incidence of L.V.T. is equitable in that land value is created by the community - as represented by government - and not individually by private citizens or by companies.
2. L.V.T. permits reduction and eventual removal of taxes on goods and earnings, i.e. on labour and industry.
3. L.V.T. by reducing incentive to speculative investment in property, releases available capital for investment in genuine production. To reverse the coin, every dollar that has to be sunk into the bottomless morass of land price is a dollar less available for productive investment, and often a dollar more that has to be obtained on mortgage with associated high interest rates.
4. L.V.T. is simple to collect and impossible to avoid. This is evidenced by the use of site-value rating by two thirds of all Australian municipalities.
5. Site valuations are already assessed Australia-wide, so the structure for the utilization of L.V.T. already exists on a sound basis.
6. The potential for L.V.T. is largely untapped as a major source for revenue, despite desultory complaints about land rates and taxes.
7. The incidence of L.V.T. is predictable, and can be readily planned for by companies, individuals and governments.
8. There is a wealth of evidence which indicates that the peaks of major propery booms herald economic recessions. L.V.T. reduces the severity of the boom-crash cycle by limiting 'decelerator effect' of property booms on the economy.
9. The collection of rent for revenue (L.V.T.) does NOT add to prices because rent is already an ingredient in the cost structure.
   By contrast, taxes on labour and its products added at any point of production or sales, DO increase prices - and, more-over, do so in a compounding fashion.

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## PRACTICAL RECOMMENDATIONS

In the preparation of this submission there has been a considerable amount of quantitative research. Some of it is pioneering, as witness the monograph NATURAL RESOURCES RENTAL TAXATION IN AUSTRALIA by A.R. Hutchinson of the Melbourne-based Land Values Research Group. An earlier paper prepared for the Asprey Committee by this same organization and entitled WHAT CHANGES SHOULD BE MADE IN THE TAXATION SYSTEM OF THE COMMONWEALTH OF AUSTRALIA? has already been referred to. Its part 1V - PRACTICAL PROPOSALS constitutes the WHY NOT? challenge of this Council in this submission to our Federal legislators.

The current trends in taxation must be reversed if we are not to hamstring ourselves in relation to the competitiveness of the rest of the world. Our proposals, then, are as follows:

1. There should be set up a NATIONAL DEVELOPMENT FUND FINANCED BY A DEVELOPMENT LEVY ON LAND VALUES, akin to municipal site value rating.
   It is important and germane to our proposals that land rental valuations are kept up-to-date, accurate, and uniform, on an annual basis.
   This would not be a problem if valuers were relieved of the obligation to assess gross rental or what is sometimes called annual valuations, which cannot be performed accurately, even at five times the cost of assessing land values. (The present estimated cost ratio.)
2. The CAPITAL COSTS of all developments works and public utilities should be met from this Fund and NOT from consumer charges or from general taxation. The provision of amenities directly increases the <u>utility</u>, and therefore <u>desirability</u>, and therefore the <u>value</u>, of land.
3. Consumer charges should be reduced so as to be required to meet day-to-day operating costs only.
4. The States should also operate on the principles set out in 1-3.
5. There should be no increases whatsoever in INDIRECT taxation, but rather the reverse.
   This Land Value Tax should progressively replace Income Tax and Sales tax for general revenue. In particular, Income Tax should be reduced in the next budget and the specific amount allocated to the Grants Commission for Local Government should be removed.

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6. Local Government bodies should be required to carry their own responsibilities and to collect their own revenue from (site value) rates - as they have done throughout most of Australia for the past 60 years.
Their tax base in this respect is more than adequate*.
Complaints by rate payers should be directed not at the revenue-raising system but at the manners in which local councils spend their funds so raised.

STATE GOVERNMENTS should

(a) remove limits on rate increases by councils.

(b) seek to convert all councils and semi-government authorities to site value rating.

(c) cease making special grants to councils from State funds other than those drawn from site values at the State level to cover such contingencies as regional natural disasters.

The best way for States to reconstitute Land Tax is to make a uniform levy on land value as part of the municipal rate collection system. All that is required is some minor changes in the computer programmes now used by municipal councils. There is an added advantage that the payments could be made quarterly.

The reduction in INCOME TAX should be applied to the raising of the lowest threshold, as this would give an equal amount reduction in income tax to everyone.

At a time when Australian industry is struggling to survive, it is madness to persist with State Payroll tax, and the Federal Government should press the States to abolish it. Relief from this tax would be shared by workers, entrepreneurs and consumers alike. The shortfall in revenue should be met by the States extending the scope of the STATE DEVELOPMENT RATE outlined in (4) above.

This should be a uniform rate, across-the-board, with no exemptions, and it should completely replace the existing LAND TAX structure which is a veritable 'dog's breakfast' with its arbitrary incidence and arbitrary exemptions. The emphasis and spirit of these National and State Site Value levies is that they equate liability to pay with the value of services provided. In that sense they are quite different from existing Land Tax which is but one more amongst a whole plethora of arbitrary irritants from which governments scratch around for extra revenue.

*See "Taxable Capacity of Local Government in N.S.W.". Research Monograph No.13, Research on Federal Financial Relations, Australian National University 1976. by P.D. GROENEWEGEN.

. People should be required to pay, not on the basis of what THEY are contributing, by their work, to the nation, but rather on the basis of WHAT THE NATION IS CONTRIBUTING TO THEM.

The Development Rates to underwrite specific Development Funds for capital works are a crystal-clear case of an equitable approach to the raising of revenue: here the nature of the revenue-raising relates directly to the nature of expenditure. This is a principle that must become part of our national ethos, namely, payment pro rata on the environmental benefits conferred and enjoyed - as manifested in the increased locality-value of land.

But we should bear in mind that land values do NOT arise from wasteful and undesirable expenditure!

It should be stressed however, that the concept of drawing revenues from the field of land rent is not intended to be limited purely to the under-writing of capital costs of public utilities. Indeed the value of land, i.e. the "rental premium upon locational advantages", is generated not only from the provision of specific utilities, but from the whole "milieu", the whole environment of community organization and activities, both public and private. The corner shop is part of the infrastructure, along with the police force and the local library. Do we not read on many an estate agent's board "Handy to station, schools and shops".?

There are thus many requirements for public funding that may legitimately look to this same land value revenue source both for provision and for maintenance.

The Georgist proposal for the plenary sourcing of revenue from the rental value of the land will earn its endorsement in the eyes of the public, particularly if it takes the form of a series of moderate changes that can be absorbed by the community over a period of time. It is because the manifest equity and rationality of the proposal is so clearly seen in the concept of the National and State Development Funds, that these have been set forth as a specific recommendation.

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<u>SUMMARY AND CONCLUSIONS</u>:

1. We reiterate that taxes on income and genuine investment capital are actually burdens on the production of wealth, and thereby, on the creation of employment.

2. No matter how carefully the bruited broadly-based consumer tax is structured, it <u>must</u> be regressive.

3. A growing community perception of the need for property-based taxes is witnessed by current advocacy of assets-based tests of wealth, a tax on speculative capital gains and estate duty. This perception is a reaction against and a concerted search for relief from, a fatally-flawed income tax system. Not only that, but also large sections of the community are also opposed to any increase in the burden of indirect taxation.

4. The latter forms of taxation may provide a marginal redistribution of wealth and thereby act as palliatives on the Australian economy, but they are grossly arbitrary, and their implementation and use present severe and costly administrative difficulties. They will not provide the equity sought; nor will they provide the revenue anticipated in the long run, and their effect is cosmetic. (The U.K. capital gains tax provides only 1% of total revenue.)

5. A broadly-based 'pay-as-you-RECEIVE' L.V.T., in exchange for major income tax cuts, offers the creative step so urgently sought to reform the Australian taxation system.

6. Such a structural reform of the taxation system will, by eliminating tax hedging and evasion, stimulate genuine investment, reduce interest rates and stimulate employment.
<u>No other tax offers these prospects</u>!

7. Tax reform is essential. Income tax is currently widening the gap between the wealthy and the poor. The rent of the land is the 'common wealth of the Commonwealth'. It is the birthright of all the people, Aborigines and others alike. The first duty of responsible government is to secure that 'Commonwealth' to the people - through the site taxation method - and thence to set about relieving them from all other taxation.
IF WE ABOLISH INDIRECT TAXATION, THE POOREST WILL BENEFIT THE MOST.

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# Britain's VAT monster


**A broader retail sales tax to enable personal tax rates here to be cut seems ever more likely. From London, LEIGH STEVENS reports on the British system – Value Added Tax**

THERE IS an insidious beast that roams far and wide in Britain, sneaking up on its victims when they least expect it.

The "beast" has an insatiable appetite for people's hard-earned cash and a particularly sharp pair of fangs that can slash through a wallet or purse in one bite, or chew a credit card to bits with one savage attack.

Australians should hope that the "beast" never finds its way Down Under to wreak havoc on people's pockets there.

The "beast" is known here as VAT – Value Added Tax – and is a flat tax of 15 per cent charged on goods and services throughout Britain.

There is no escaping the "beast", as Australia will find if ever the Government decides to import this British terror, once you put your hand in your pocket.

That bargain in the window priced at 99.99 pounds that looked such a good buy can suddenly turn into an extravagance when the shopkeeper politely says: "Now, sir, of course there's VAT to be added." Another 15 pounds (or 14.9985 to be exact).

And the attractive quote on the additions to your house can take a sudden and painful jump when the builder adds the 15 per cent at the last minute.

VAT, as a consumer tax, can be very perplexing, puzzling even to those who think they have a grasp of it.

For example, a sandwich at the local lunch shop is free of VAT – if it is cold. But if you buy a hot pastie or pie instead, then you pay an extra 15 per cent – because that is hot food.

If you buy a tin of corned beef at the supermarket, it comes VAT free. But you pay the 15 per cent for your can of cat or dog food.

The anomalies in the application of the tax are many and varied.

The paper I am typing this story on has VAT paid on it when the office buys it. So does the typewriter ribbon that is supplying the ink.

Fares on buses and trains are exempt, but for those who choose to ride in a taxi, the fare comes with VAT added.

Gas, electricity and water supplied to your home are exempt, so is the rent. But the cost of using the telephone grows by 15 per cent by the time the bill comes around.

You can be born and die without paying VAT. Medical treatment under Britain's National Health Scheme is exempt, as are medicines and spectacles prescribed by a doctor. But the headache tablets that you normally pick up in the chemist or supermarket have VAT added.

You might expect clothing or shoes to be exempt, because they are rather necessary items. But only those bought for children escape the tax.

As a result of a change in last year's Budget, heated takeaway food is now taxed. However, such things as sandwiches and rolls, cold pork pies and scotch eggs are not taxed.

This switch in policy brought a howl of protest from the takeaway industry, because it suddenly added 15 per cent to the cost of buying fried chicken, fish and chips, hamburgers and Chinese and Indian meals.

Before the change, it was cheaper to take out rather than eat in, because meals served in restaurants and cafes have always been taxed. Now, takeaway food is just as dear.

Motorists and drinkers cop a double slug. As well as excise paid on petrol and alcohol, there is VAT, even though it all finishes up in the same basket of the Customs and Excise Department, which is responsible for the collection of VAT throughout Britain.

VAT has been very much in the news here recently since speculation became rife that the Government was going to impose the tax on newspapers, books and magazines.

There was an immediate howl of protest, understandably from publishers and newspaper owners. The Chancellor of the Exchequer, Mr Nigel Lawson, has done nothing to put down the speculation.

Britain is now the only member of the 10-nation Common Market that grants an exemption on newspapers, books and magazines.

Many critics have warned that such a tax would mean the death of some famous titles, both in Fleet Street and among the local papers.

The Daily Mirror said in an editorial that such a tax would be a tax on freedom – and knowledge. It said that the dilemma for Mr Lawson was that he wanted to reduce the tax on earnings – income tax – and he could do it only by increasing the taxes on spending – principally VAT.

Newspapers have been exempt from tax since William Gladstone, as Chancellor in 1855, removed the stamp duty that then applied, a move that led to a great expansion of the newspaper and magazine industry.

The dearest Fleet Street paper today is the Sunday Times, which sells at 50 pence (about 75 cents). Adding 15 per cent VAT to this would mean a price increase of 7.5 pence (about 11 cents), quite a big jump.

The great fear among British consumers is that like most taxes, they tend to proliferate rather than become fewer. And once a government has a tax-gathering measure in place, it is easy to rip more off by simply increasing the rate.

The Prime Minister, Mrs Thatcher, has firmly ruled out the possibility of taxing food in next month's Budget.

But that does leave newspapers, fares, children's clothes, gas, electricity, rent, medicine and even betting, which much to the amazement of some punters, is still exempt from VAT.

A few pounds also could be picked up on funerals and postage stamps, if the tax gatherers put their minds to it.

And in the past week there has been speculation that the Government is planning to use VAT to pay for the "Scargill factor" – the increased cost of burning the more expensive oil than coal at power stations during the miners' strike.

It was argued that by simply putting VAT on gas, electricity and water supplies, the Government would recoup the extra cost, estimated to be between one and two billion dollars.

It is no wonder that it all becomes too much – even taxing – for people after a while.

I have worked out that I can have a tax-free ride home on the train, buying my still tax-free newspaper and a cold tax-free snack along the way. I can walk into my tax-free rented house, warmed by tax-free gas heating and lit by tax-free electricity (still) and sit down to a tax-free meal prepared on the tax-free gas stove.

But the big problem comes when I open the fridge to pull out a can of beer, chilled by tax-free electricity. There is a sudden, agonising pain in my hip pocket, and the dreaded VAT "beast" has got me at last.