THE AUSTRALIAN CAPITAL TERRITORY HAS ADOPTED MEASURES TO ABOLISH STAMP DUTY AND IMPOSE A LAND TAX ON ALL REAL PROPERTY: WILL THIS APPROACH BE ADOPTED BY OTHER STATES IN AUSTRALIA?

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ABSTRACT

From 1 July 2012 the Australian Capital Territory (ACT) imposed land tax, in the form of general rates, on all commercial and residential property in the ACT, including owner occupied homes, on a progressive basis. Marginal rates of tax are applied on increased values of the land. The ACT is unique in that there is no local government so the ACT government was able to increase its general rates on owner-occupied homes and reduce land tax on investment properties and commercial properties. As a result of the subsequent increase in government revenue, the ACT has substantially reduced stamp duty on real property conveyances with a view to abolishing stamp duty over the next 20 years. The ACT government undertook a review of its tax system in 2012 and one of the major recommendations was to broaden the land tax base to all principal places of residence and to abolish stamp duty on conveyances of real property. This approach follows the recommendations of the Henry Tax Review. This paper will examine the current approach to the imposition of land tax in the ACT as well as the recommendations on the need to broaden land tax contained in the Henry Tax Review. The conclusion arrived at in the paper is that the ACT approach to the abolition of stamp duty and the imposition of a land tax on all property in the ACT should eventually be adopted by all States in Australia and the Northern Territory.

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I INTRODUCTION

The Australian Capital Territory (ACT) government undertook a review of its tax system in 2012[1] and one of the major recommendations was to broaden the land tax base to all principal places of residence and to gradually abolish stamp duty on the conveyances of real property. By the year 2032, it is envisaged that there will be no stamp duty paid by the buyers of real property in the ACT.[2] This approach generally follows the recommendations of the report into 'Australia's Future Tax System' (the Henry Tax Review) chaired by Dr Ken Henry. However, the ACT government recognised the benefits of a land tax over other forms of taxation such as stamp duty, but only in terms of the raising of revenue in the ACT. The Henry Tax Review recommended a uniform land tax for Australia and the abolition of stamp duty in all States and Territories in Australia. It is not intended in this paper to examine the merits of a uniform land tax applying throughout Australia or the issues of Commonwealth – State taxation powers in the area of land tax. This is a topic for a separate discussion. At present the Australian States and the ACT impose land tax at progressive rates on the average value of land that is not used as a principal place of residence or land used for primary production. Local government imposes a land tax in the form of 'rates'. The Commonwealth government no longer imposes a tax on land.[3]

The main purpose of this paper is to examine specifically the ACT initiative in applying a progressive rate of land tax, in the form of general rates, to all owner-occupiers of land in the ACT. This is a radical departure from the way in which the States impose land tax as the ACT taxes all principal places of residence. However, in this context it is important to examine the basis for the recommendation of a uniform land tax in the Henry Tax Review because of its influence on the ACT.

In 2009 the Australian Government commenced a review of Australia's future tax system under the Chairmanship of the Secretary of the Treasury, Dr Ken Henry. The Henry Tax Review states that the future Australian tax system should increasingly rely on land values as a tax base. The Review recommended that a rent tax should be applied

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[1] Quinlan, T (Chair); Smithies, M; and Duncan, A, 2012, *ACT Taxation Review*, Report to the Treasurer, ACT.

[2] It is interesting to note that one of the main beneficiaries of this reform will be the Commonwealth government. At present in the ACT the owners of real property used for income producing purposes are able to claim a deduction for stamp duty on the basis that all land in the ACT is leasehold and that s 25-20, *Income Tax Assessment Act 1997* (Cth) provides the basis for the deduction.

[3] The Commonwealth of Australia did impose a tax on land from 1910 until 1952 under the *Land Tax Act 1910* (Cth) and the *Land Tax Assessment Act 1910* (Cth).

to land either at a flat rate or at marginal rates on all land including owner-occupied housing.[4] The Henry Tax Review pointed out the obvious fact that because land is immobile people cannot change their behaviour in order to avoid paying the land tax. It is an efficient form of taxation because it does not affect the way in which land is used or how much is used but would result in a reduction in the price of land.

The following statement contained in the Henry Tax Review provides a very good summary of the importance of a uniform land tax.

> Land value tax therefore differs from taxes on other productive resources: taxes on labour reduce people's work effort; and taxes on capital can cause the capital to be employed elsewhere particularly overseas. In contrast, a broad land value tax is borne by landowners and the supply of land is unchanged. Land value tax falls on the owner's 'economic rent'.
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> The relative efficiency of land value tax is supported empirically. A recent OECD report found that a 1 per cent switch to land or property tax (but not to taxes on transactions) away from income tax would improve long-run GDP per capita by 2.5 percentage points (Johansson et al. 2009). This study did not assess taxes on the economic rent from natural resources, which are also potentially efficient tax bases. [5]

The Henry Tax Review contends that there are three implications for owners of land when a land tax is introduced: first; the price of land will suffer a one-off fall in value, second; the land tax only applies to the unimproved value of the land. This means that the owner of the land still has an incentive to improve the land in the form of a new factory or improvements to a family home. Third; there should be very few exemptions from land tax. Owner occupied homes and some agricultural land that is located on the fringe of cities such as market gardens should not be exempt.[6] The Review also noted that with an ageing population there may be owner occupied homes where the owner is asset rich but income poor. In that situation it was recommended that some system of loan arrangement be introduced so that the tax was paid when the property was finally sold.[7] As will be seen in Part III of this paper, such a system exists in the ACT under the *Rates Act 2004* (ACT).

The need for a uniform land tax as a means of raising government revenue must be seen in the context of an ageing population in Australia. This situation is most aptly summarised in the following passage from Rob Heferen, Executive Director, Revenue

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[4] Commonwealth of Australia, *Review of Australia's Future Tax System*, (2010), 247.
[5] Ibid, 266.
[6] Ibid.
[7] Ibid, 267.

Group, Department of Treasury when discussing the problem of funding the needs of an ageing population with a reduced number of individual income tax payers.

> ... [W]e should not forget the looming challenge of an ageing population. The *2010 Intergenerational Report* again brought into focus that, on current trends, spending on existing programs will become unsustainable over the medium to long term. The report estimates that there will be just 2.7 people of working age to support every person over the age of 65 by 2050, compared to 5 people in 2010. Real GDP growth per person is projected to slow to an average of 1.5 per cent per year over the next 40 years. An increasingly large population of older Australians is expected to contribute to a substantial rise in Commonwealth Government spending as well. The key message taken from all three intergenerational reports is that, apart from the need for continued vigilance in the relevant outlays, attention needs to be given to increasing the size of the economy through increasing labour force participation and improving labour productivity. And it is with respect to these two policy imperatives, together with the need to provide stable, secure revenue for the Government, a number of tax initiatives have been progressed.[8]

The Henry Tax Review proposed a land tax[9] as part of its vision for the taxation of economic rent, in conjunction with a raft of other taxes mainly on economic rent such as a 'super profits tax on minerals' which is now the Minerals Resource Rent Tax. It sees the unimproved capital value of land as the surplus over and above the costs of production and adequate returns on them. So at the heart of Dr Henry's ideas about land tax is the concept of economic rent. An unimproved land value tax does not seemingly tax the labour and capital input into land because it arguably removes from the calculation process those inputs into the value of land itself.[10] An added benefit of a tax on economic rent, or the unearned incremental increase in land values, was identified by Judith Yates in that the land tax could replace the lack of capital gains taxes on owner-occupied housing.[11] The taxation of land is the taxation of rent because rent is the increment of market gain that accrues to choice land parcels.[12] As the Henry Tax Review states the economic rent flows from the efforts of others or simple luck. The value of

[8] Rob Heferen, 'Beyond the Tax Forum', Executive Director, Revenue Group, December 5, 2011.
[9] AFTS *Chapter C: Land and resources taxes C2. Land tax and conveyance stamp duty C2–1 Land is (potentially) an efficient tax base*, 6 December 2010.
[10] The valuation methodology and process used by local governments and State governments throughout Australia has not been harmonised and problems still exist. For a detailed examination of the problems associated with land tax see Vince Mangioni, Transparency in the Valuation of land for tax purposes in New South Wales, (2011) 9(2) *eJournal of Tax Research* 140.
[11] Judith Yates, 'Housing and Tax: The Triumph of Politics over Economics' in Chris Evans, Richard Krever and Peter Mellor (eds), *Australia's Future Tax System: The Prospects After Henry* (Thomson Reuters, 2010) 233, 258.
[12] H William Batt 'The Compatibility of Georgist Economics and Ecological Economics ' 2003 Wealth and Want in 21st Century America http://www.wealthandwant.com/docs/Batt_GEE.html viewed 9 December 2012.

land rises due to population growth near cities and the demand for portions of the land close to roads and infrastructure increases. When this is coupled with the fixed supply of land this resulting increase in value is the economic rent.[13]

This paper will examine the philosophical basis for a tax on land and the broader concept of economic rent in Part II. This will be followed by an examination of the ACT land tax initiative in part III. This will also include a discussion of the merits of the ACT land tax from the perspective of those who will gain and those who will lose under the present system. Part IV will provide a conclusion and in particular the basis for all State and Territory governments to seriously consider following the ACT governments' approach to land tax. The following discussion of land tax and stamp duty will be limited to the merits of the ACT tax initiative and will not examine the possible impact the tax changes may have on housing affordability in Australia. This area has been more than adequately discussed in the work by Professor Stewart and other academics.[14]

II THE CONCEPT OF A TAX ON LAND

The issues facing Australian society mean that an extension of current and proposed taxes on economic rents cannot be dismissed. Indeed, as mentioned previously, the Henry Tax Review and Garnaut and Clunies Ross recognise theoretically that there is no reason for limiting the taxation of economic rent to specific examples like resources.[15] This aspect of economic rent has been critically examined for other industries that have a natural monopoly such as the exploitation of timber and fish resources.[16] Economic rent is the return over and above the return necessary for the activity to take place.[17] For example, what does it take to get a super model to work? Linda Evangelista told *Vogue* that 'we don't wake up for less than $10,000 a day.'[18] While the example is hardly scientific, for the purposes of exposition it is appropriate. If a supermodel were paid anything more than that, and they are, it is economic rent. This is similar to the example provided in the Henry Tax Review to illustrate the concept of economic rent.[19] So a

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13 Commonwealth of Australia, above n 3, 249.

14 M. Stewart (ed), *Housing and Tax Policy*, (Australian Tax Research Foundation, 2010).

15 Ross Garnaut and Anthony Clunies Ross, *Taxation of Mineral Rents* (Clarendon Press, 1983) 26.

16 John McLaren, 'Petroleum and Mineral Resource Rent Taxes: Could these taxation principles have a wider application? (2012) 10 *Macquarie Law Journal* 69.

17 W.H. Wessel, 'A Note on Economic Rent' (1967) 57(4) *American Economic Review* 873, 885.

18 Van Meter J, 'Pretty Women' in *Vogue* (October 1990)

19 Definition of economic rent provided in the Henry Tax Review stated that 'An economic rent is the excess of the return to a factor of production above the amount that is required to sustain the current use

Government could tax almost all of that excess without affecting a supermodel's work decisions at all. They would still go to work even if the economic rent tax reduced the return to 'just' $10,000 a day.[20]

A very succinct explanation of the concept of 'economic rent' is contained in the following definition provided by Professors Garnaut and Clunies Ross:

> Economic rent is the excess of total revenue derived from some activity over the sum of the supply prices of all capital, labour, and other 'sacrificial' inputs necessary to undertake the activity. ... In essence, it referred to the reward that a landowner could derive by virtue simply of being a landowner and without exerting any effort or making any sacrifice.[21]

Garnaut and Clunies Ross acknowledge that the definition is based on the work by Ricardo.[22] Adam Smith also examined the concept of economic rent in his treaties on '*The Inquiry into the Wealth of Nations*' and contended that rent is an unearned surplus which is appropriated by the landlords through the exercise of their monopoly power.[23] Smith and Ricardo considered rent to be the unearned income obtained from renting land to entrepreneurs who then grew crops or livestock. The entrepreneur took the risk in buying seeds, planting the crop, harvesting the crop and finally selling the product. The fact that the owner of the land had a monopoly and was able to extract a rent without undertaking any activity or risk, caused political economists such as Smith to develop the theoretical concept of taxing the economic rent of the landowner.

In order to eliminate any confusion when discussing a tax on land, the term 'rent' is used in the way in which David Ricardo described it as the 'compensation paid to the owner of land for the use of its original and indestructible powers'.[24] He distinguishes this approach from the 'economic rent' derived from the use of the land which produces a profit after deducting the cost of capital and labour. This is in line with the approach taken by the Henry Tax Review, as stated above, that the owner of land derives 'economic rent' when the value of the land increases as a result of economic growth. In effect it is recognition of the unrealised capital gain in the land which is not currently subject to any form of taxation. To some extent this increase in value is captured by the

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of the factor (or to entice the use of the factor). For example, if a worker is paid $100,000 but would still be willing to work at the same job if they were paid $75,000, their economic rent would be $25,000.' Commonwealth of Australia, above n 4, 737.

[20] John McLaren, above n 16, 71.

[21] Ross Garnaut and Anthony Clunies Ross, above n 15, 26.

[22] Ibid, 27.

[23] Joseph Keiper, Ernest Kurnow, Clifford Clark et al, *Theory and Measurement of Rent* (1961), 14.

[24] David Ricardo, *The Principles of Political Economy and Taxation* (J.M.Dent & Sons, 1911) 34.

State governments and Local governments by increases in the rate at which land tax is imposed or local government rates are levied, but the whole system is ad hoc and in need of harmonization.

Similarly, a mine owner obtained a rent after capital and labour costs were deducted from the price of the minerals that had been sold. It is also acknowledged that a tax on the economic rent has a neutral effect on the landowner or mine owner.[25] A landowner or a mine owner would continue with their activity even though their excess profit or economic rent was subject to tax. The costs of capital and labour are already a factor in arriving at the economic rent. A simple way of demonstrating the way in which economic rent is calculated is found in the following formulation:

Economic rent = total revenue minus total economic cost[26]

The total 'economic cost' includes a return on capital and a return on labour plus an uplift factor to compensate the investor. As with the mineral resource rent tax, the tax on the economic rent only applies after the mine owner receives a return on capital and labour of the long term bond rate plus an uplift factor of seven percent.

The idea of imposing a rent tax on land is not new, as can be seen from the above discussion. The classical economists have always advocated the merits of land tax. Henry George advocated the abolition of all other forms of taxation other than the collection of the ground rent from the value of land irrespective of the improvements.[27] George did not advocate the nationalisation of all land by the state in order to achieve this goal.[28] Land was to be left in the hands of the owner. He believed that a land tax would provide the state with sufficient revenue that it would be unnecessary to tax capital or labour.[29] To him, these forms of taxation were inefficient.[30] By abolishing the taxation of capital and labour this would lead to greater incentives for production.

Henry George also believed a land tax would destroy land monopoly by making the holding of land unprofitable unless it was being put to a profitable use.[31] Land speculation would cease to exist because of the land tax. This was similar to the original

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[25] Ibid.

[26] G. C. Watkins, 'Atlantic Petroleum Royalties: Fair Deal or Raw Deal?', (2001) *Atlantic Institute for Market Studies*, The AIMS Oil and Gas Papers (2), 5.

[27] Henry George, Social Problems, (1938, The Henry George Foundation of Great Britain) 179.

[28] Ibid.

[29] Ibid, 181.

[30] Ibid.

[31] Ibid.

intent of land tax in the Australian States where the tax was seen as a mechanism to break up large land holdings. The Commonwealth of Australia introduced a land tax with the enactment of the *Land Tax Act 1910 (Cth)* and the *Land Tax Assessment Act 1910 (Cth).* It was contended that the main purpose of the legislation was to control the ownership of land in Australia and to penalise land owners that were not resident in Australia by imposing a progressive rate land tax on the unimproved value of land in excess of five thousand pounds. The High Court of Australia in the case of *Osborne v The Commonwealth and George Alexander McKay* (1910-11) 12 CLR 321 examined the legality of the legislation on the basis that it was not concerned with raising tax but its main purpose was to break up large land holdings in order to promote greater agricultural pursuits and reward returning soldiers from the first World War.[32] Griffith CJ acknowledged that a consequence of the Act may be to prevent large holdings of land but that did not affect the competence of the Act to impose a land tax.[33] The Commonwealth government abolished land tax in 1952 and now States and Territories impose land tax to a limited extent and local government imposes land tax in the form of 'rates' on all homes including owner-occupied homes.

A Specific Recommendations on Land Tax and the Abolition of Stamp Duty

The Henry Tax Review provides four specific recommendations on land tax and the abolition of stamp duty on conveyances. In order to adequately assess the actions taken by the ACT government in gradually abolishing stamp duty on conveyances, it is appropriate that those recommendations are summarised below:[34]

> Recommendation 51 – stamp duty on conveyances be abolished by States and replaced with more efficient taxes such as those levied on consumption or land. Abolishing stamp duty at the same time as increasing the tax on land would have the additional benefit of offsetting the impact on land prices.
> Recommendation 52 – land tax should be levied on as broad a base as possible, with few exemptions, and at progressive rates reflecting the value of land to be determined by a per-square-metre value.
> Recommendation 53 - in the long run land tax should be levied on all land.
> Recommendation 54 – land tax could be improved if it was imposed on each holding and not on an entities' total holding as this would promote investment in land; eliminate stamp duty on commercial and industrial properties in return for a broad land tax; and investigate various transitional arrangements in order to achieve a broadening of land tax.

[32] Ibid.
[33] *Osborne v The Commonwealth and George Alexander McKay* (1910-11) 12 CLR 321, 335.
[34] Commonwealth of Australia, above n 4, Part One, 90.

As will be seen below, the ACT government has implemented many of the above recommendations. The key question to be answered in this paper is will the other States in Australia adopt the same approach or will the ACT be the only jurisdiction in Australia to abolish stamp duty on conveyances and broaden the base of the existing land tax system?

III AN EXAMINATION OF THE ACT LAND TAX PROPOSAL

As stated above, the ACT does not have local government in the form of municipal councils. Therefore the Territory government acts in the capacity as an equivalent state government and the various local governments found in the States in Australia. The Henry Tax review examined the issue of stamp duty on the purchase of property and concluded that it discouraged people from moving as it was generally twice the cost of real estate agents fees and removal costs.[35] Similarly, stamp duty acts as a barrier to entry for first home buyers as they have to save the stamp duty up front and discourages older home owners from downsizing as it reduces their equity.[36] The review also contended that stamp duty inhibited people moving for employment purposes which may result in higher unemployment. Basically stamp duty is inequitable and the burden of the tax falls on those who move frequently in their life due to a number of reasons such as divorce, birth of children or work opportunities.[37]

A Specific tax reforms in the ACT

The main policy consideration for the abolition of stamp duty on conveyances was the fact that only 9 percent of the population of the ACT contributed to a quarter of the total amount of tax collected through this source of revenue.[38] The burden of this tax fell on those who were required to move homes or when families could least afford it.[39] The ACT government not only stated that this tax was unfair but that it was an unpredictable and volatile source of revenue.[40] The ACT Taxation Review recognised the fact that the ACT economy was highly dependent on decisions of successive Commonwealth Governments for public expenditure which would have a direct impact on economic

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[35] Commonwealth of Australia, above n 4, 254.
[36] Ibid, 255.
[37] Ibid, 257.
[38] Quinlan, above n 1, 12.
[39] ACT Tax Reform Fact Sheet – 'Duty on Conveyance – abolishing stamp duty' www.treasury.act.gov/TaxReform/Index.shtml 12 December 2012.
[40] Ibid.

activity in the territory.[41] While the high number of public servants employed in the ACT provided some stability, the current Commonwealth budgetary situation is adding to the uncertainty for the future of stamp duty as a reliable tax. This situation facing the ACT is arguably being experienced in all States with a slowdown in the property market. The ACT government intends to abolish stamp duty on general insurance and life insurance over the next five years (20 percent each year) from 2012-2013 as a result of increasing the general rates.

The following table shows a comparison of new conveyance duty with the current system. It can be seen that for a conveyance of a property purchased for say $300,000, that the stamp duty saving if purchased in 2016 compared with 2012 would amount to $4,040 (9,500 – 5,460).

Current system until 5 June 2012		**6 June 2012**	**1 July 2013**	**1 July 2014**	**1 July 2015**	**1 July 2016**
Property value thresholds ($)	**Duty payable ($)**			**Duty payable ($)**		
100,000	2,750	2,400	2,200	2,000	1,800	1,480
200,000	5,500	4,800	4,400	4,000	3,600	2,960
300,000	9,500	8,550	8,100	7,500	6,600	5,460
500,000	20,500	18,050	17,100	15,800	14,600	13,460
750,000	34,875	31,800	29,600	28,300	27,100	25,960
1,000,000	49,250	48,050	45,850	44,550	43,350	42,210

The ACT has both a land tax on investment and commercial property as well as a general rate which is imposed on all property with limited exemptions. By decreasing the level of land tax the government expects a greater level in the supply of investment properties which are then available for rent. However, the level of the general rate increases on a progressive basis similar to land tax. The general rate is levied on all property similar to rates imposed by local governments throughout Australia. The general rate is based on the average unimproved value of the property. The general rate has two components; a

[41] Quinlan, above n 1, 13.

fixed charge and a valuation charge. The current fixed charge is $555 and the valuation charge is subject to assessment on progressive rates as shown below.

The new land tax rates, as shown below, will result in seventy six percent of properties receiving a decrease in land tax and twelve percent an increase due to a change in the progressive rates. The rates are shown in the table below:

Land Tax Rates

Current system until 30 June 2012		**New system from 1 July 2012**
Average unimproved value	**Rate (%)**	**Rate (%)**
Up to $ 75,000	0.60	0.60
From $75,001 to $150,000	0.89	0.70
From $150,001 to $275,000	1.15	0.89
$275,001 and above	1.40	1.80

The new residential land tax rates will reduce the land tax on all properties with an average unimproved value (AUV) between $75,000 and $390,000.

General Rates

Thresholds Rate (%)	
0 to $150,000	0.2236
$150,001 to $300,000	0.3136
$300,001 to $450,000	0.3736
Above $450,001	0.4136
Fixed charge $555	

Under the new general rates system properties with an AUV below $200,000, around 33,700 ACT households will have a decrease in General Rates. Properties with an AUV above $200,000, around 108,000 ACT households, will incur an increase in General Rates. The ACT government allows for the payment of the general rates to be deferred and paid when the property is finally sold. Interest is imposed on the outstanding amount.42 This provides some relief for retired property owners unable to pay the increase in the general rates especially if the value of their land increases substantially over time. This is in line with the recommendations made by the Henry Tax Review.43

[42] The *Rates Act 2004* (ACT), sections 44, 48, 55 and 56.
[43] Commonwealth of Australia, above n 4, 266.

The idea of the tax reform is for the general rate on land tax to increase as the revenue from stamp duty declines over the next twenty years. The general rate will increase as the value of land in the ACT increases and the progressive rates are applied to an ever increasing value. Ben Phillips from NATSEM,[44] undertook research into the likely level of rates if stamp duty was entirely replaced within twenty years. He found that the general rate on all real property would need to double relative to current levels being imposed on all property owners in the ACT. Allowing for bracket creep with house prices increasing by 6 percent perannum provides an 80 percent increase over 20 years. However, he did not believe that allowing for bracket creep for a 20 year period was realistic.[45]

Therefore it may be concluded that the ACT initiative to abolish stamp duty and replace it with a land tax in the form of an increase in the general rates may not achieve its objective within a twenty year period. The ACT government may need to increase the current progressive rates within the next 20 years or the growth in the population may be such that more people are paying the land tax. However, the reform does follow the recommendations contained in the Henry Tax Review and the arguments in support of abolishing stamp duty on conveyances are overwhelming.

B The losers as a result of the reforms

From the above analysis the current level of the general rate on land in the ACT would need to virtually double in 20 years in order to maintain the level of revenue collected by the ACT government. This means that the cost of living in the ACT will increase. However, if all State governments followed the ACT example then a level playing field would be created within Australia. This would mean that property owners are not encouraged to live outside the ACT as a result of the high level of land tax. It would be very easy for ACT residents to relocate to NSW. Some people will be paying more than they currently would if this system of land tax had not been introduced. Older people, often on fixed incomes, would be significantly affected by a shift to property taxation since, even though inequities between taxpayers seem to be far greater where capital

[44] Ben Phillips: Principal Research Fellow, NATSEM, 15 November 2012, Tax Reform in the ACT: Distributional Impacts http://www.natsem.canberra.edu.au/storage/ACT%20Tax%20Reform.pdf.
[45] Ibid.

value, rather than land value is used, superannuitants tend to own disproportionately expensive properties relative to their incomes. However, '[d]ifferences in land ownership patterns make it difficult to generalize across countries, states, or even cities when considering the distributional effects of a land value tax'.[46]

Property owners who have in the past paid stamp duty will be aggrieved by the abolition of stamp duty and will now be required to pay an increased land tax. However, the fact that these specific reforms are being phased in over a 20 year period provides some relief.

C The winners as a result of the reforms

Those residents of the ACT that intend to buy a new property in the ACT and those new residents buying their first property in the ACT are clear winners from these reforms. Stamp duty acted as a disincentive for home owners to either upgrade the size of their main residence or to downsize their main residence when their children left home. The Commonwealth government also wins because now when an investment property is purchased in the ACT and the stamp duty is claimed as a deduction against the owner's income tax liability, the amount of the deduction is reducing down to zero over the next 20 years. As stated above, stamp duty in the ACT only directly affects 9 per cent of the population so statistically not a very large percentage of the population gain from this measure. However, there are no other direct winners except real estate agents and home builders benefiting from a potential increase in real estate activity.

IV CONCLUSION

The ACT government has taken a bold step in implementing some of the recommendations of the Henry Tax Review in relation to the abolition of stamp duty and its replacement by a tax on land. There are compelling arguments for taxing the economic rent generated by the mere ownership of land. The classical economists recognized the non-distorting effects of taxing the economic rent associated with land. The Henry Tax Review advocated the broadening of the land tax base especially with an ageing population in Australia and the reduction in the number of individual tax payers in the future. Moreover, there are compelling arguments in favour of abolishing stamp

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

duty on conveyances. The ACT government has taken a great deal of initiative in abolishing stamp duty and increasing land tax through its general rates on all owner occupied land in the ACT. This means that property owners are facing a substantial increase in their rates on their property. The main issue facing the ACT government and other State governments is just how much land tax will have to increase in order to generate sufficient revenue once stamp duty has been completely abolished.

It is understandable if State governments are reluctant to adopt similar tax reforms to the ACT as the burden of tax is shifted from purchasers of real property to all owners of property in the ACT and an increased burden for the owner-occupier. Within the next 10 years the ACT government will be able to assess the impact of these reforms on the property owners living in the ACT, especially the retired owner facing the prospect of paying a substantial sum of money each year in general rates as their property increases in value. However, this is in essence a rent tax on the unearned increase in the value of the land and what was extensively examined in the Henry Tax Review.

In conclusion, there are strong reasons that have been discussed above, for all State governments to seriously consider adopting the initiatives implemented by the ACT government. It is contended in this paper that the positives outweigh the negatives.