

**Taxing Agricultural Land:
A Policy Instrument for Land Use Intensification, Local Development and Land
Market Reform**

**Draft Background Paper
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Executive Summary

A “land tax” is a tax on the value of land, which is paid by the owner. It is different from a property tax, in that a land tax taxes the value of the land only, whereas a property tax taxes the value of the land *and* the fixed improvements made on it (e.g. a house, a farm building, and irrigation canal).

The main arguments in favor of land taxation are based on economic, land use, administrative and social justice considerations. The principal economic argument is that a pure land tax is non-distortionary, because it has no negative effects on investment or production. Because the land tax is a fixed cost that must be paid whether or not the land is used for production, it does not penalize production and creates an incentive to develop land to its most profitable use. In this regard, land taxation discourages underutilization of land and land speculation. Administratively it is a preferred type of taxation because of its transparency; land is immobile and cannot be hidden or disguised as a bookkeeping transaction. From a social justice perspective, it captures the economic rent that arises from a scarce natural resource due to population presence and public infrastructure investment which increase the market value of land. As such, it is inherently equitable to tax such “unearned increments” that arise from public actions. From an institutional perspective, the tax can be viewed as a payment to society for the benefits conferred to the landowner for the guarantee of private property.

Empirical evidence exists, reflected in the land taxation literature from around the world, to support the above arguments. For instance, when the rate at which the land is taxed is economically significant and the taxation procedures are well-administered, the effect of land taxation on intensifying land use is strong.

Nevertheless, it is also apparent that achievement of these effects in the developing world has been elusive due mainly to low tax rates, low assessed values and limited administrative capacity. Fortunately, several improvements in land tax administration, such as area-based valuations and (community) self-assessment, have proven to be effective answers to the earlier administrative challenges.

The idea that the intensification of land use as a result of more effective taxation will also lead to some redistribution from less efficient to more efficient farms through markets is supported by international experience, but not necessarily in a way which will benefit the small farmers who usually must cope with disadvantages vis-à-vis large-scale commercial farmers in land and credit markets, access to new technology and marketing. However, through the reduction of the non-agricultural value of land, the land tax does assist small farmers in reducing one of their disadvantages in the land market. Improved land taxation is an important element of a package of land policies geared towards achieving greater rural employment and eventually less concentrated land distribution, but can never be the only instrument to promote land redistribution.

Economic theory of land taxation

The taxation of the unimproved value of land has long been considered an “ideal tax” by a wide range of scholars and politicians, including the 17th century philosopher John Locke, the 18th century revolutionary Benjamin Franklin, and the 19th century politician Henry George. And in 1990, several leading economists—including four Nobel prize winners—wrote to then President Mikhail Gorbachev, suggesting that Russia use land taxation in its transition towards a free market economy¹.

The attractiveness of a land tax is attributed to the following factors:

The main arguments based on *economic theory* for a land tax are the following:

- it does not distort economic incentives (because the overall supply of land is fixed);
- it is fair, because it specifically targets *unearned* income (a rent)—the value improvements of land caused by *public* investment (owners are taxed on what was there originally—the potential of the land) and not an economic activity of the owner;
- it provides a disincentive to land speculation in both urban and rural areas; and
- it is relatively easy to administer (because it is impossible to hide land).

The value of fertile land is composed both of its capacity directly to produce goods and services such as crops and accommodation, as well as the broader benefits associated with domicile in and membership of a specific human community. The amenities and infrastructure directly provided by the community, whether through a governmental structure or by other means contribute a major and significant portion of the land value. Since Ricardo, economists have referred to this as “rent” in order to make a useful distinction between this part of the value and the more conventional element of value, the returns derived from the next best opportunity. Incremental efforts by society to improve the economic and amenity environment have their inevitable reflection in increased land rents and value.

Failures, in which community resources are spent in ways that restrict development, harm the environment or improve it less than the costs incurred, will have a negative impact on land values. In other words, the land tax also works in reverse. The owner of the property is automatically compensated for this by a reduction in the land tax paid.

This process of embedding social actions both positive and negative in the value of land located in the community was famously identified, measured and named by Wallace Oates as “capitalisation”.² He pointed out that public actions, whether on the expenditure or revenue side have their prompt reflection, and are capitalised in local property values.

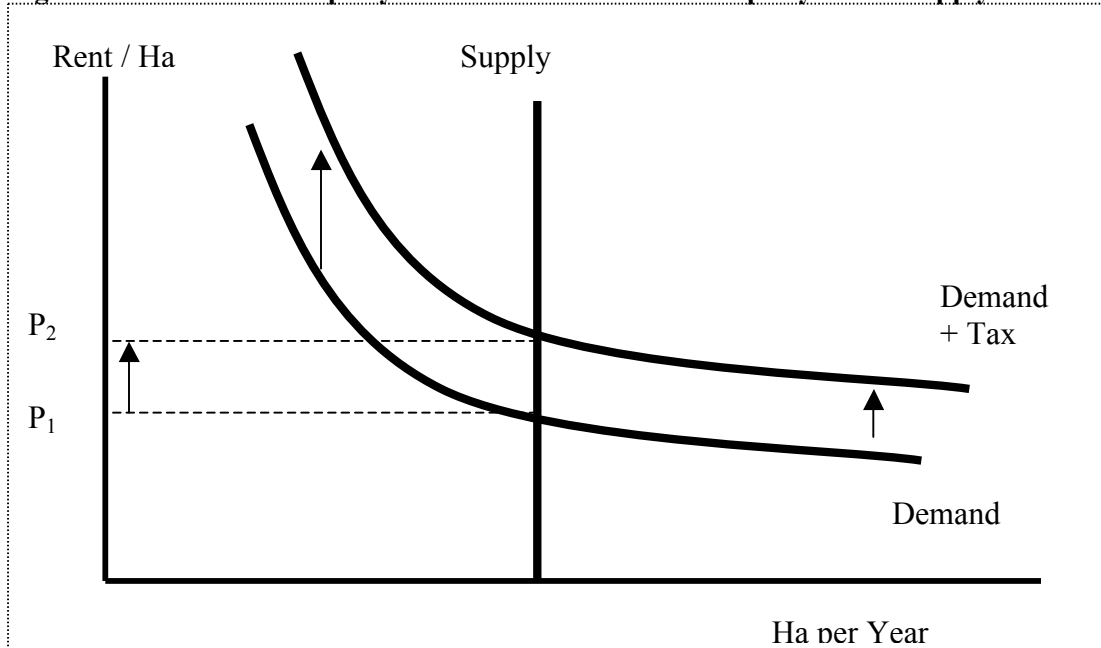
¹ See www.counterpunch.org/schaefer02272004.html.

² Oates, W. (1969).

Since then, hundreds of studies have confirmed and measured in hard currency the contribution which local and national communal facilities, and the contributions which funded them have made to land value. Property valuers the world over use variables reflecting collective services, including proximity to public transport, quality of infrastructure, local schools, as key determinants of property value. It is common cause that a significant component of land value is not earned by the efforts of the land owner or occupant, but result directly from collective actions, even from the mere presence of an organised community, regardless of the quality of services it currently provides for its members. As such, the incumbent owner of the land has, in the neo-Georgist view, no moral right to claim increments in the value as his or her own, nor any cause for complaint if a tax on land value is instituted to capture such value for the benefit of the entity that was responsible for its creation: community government and its partners.

A land tax is considered to be a progressive tax, in that wealthy landowners should normally be paying relatively more than poorer land owners and tenants. Conversely, a tax on buildings can be said to be regressive, falling heavily on tenants, who generally tend to be poor relative to landlords (Netzer, 1973). This is because the local supply of land is inelastic relative to the demand for the land. Hence, owners cannot easily adjust their behaviour to minimize the tax in the short term, avoiding it by reducing supply of land to the market. The tax on the site value therefore falls on the suppliers, not the demanders, on the owners of the land, not on the tenants, as the tax on buildings does.

Figure 1. Effects on a Property Tax on the Demand for Property While Supply is Inelastic



Source: Mieszkowski, Peter. (1971).

The above equity argument is made in the seminal work on property tax incidence by Peter Mieszkowski (1971). The basic point is that a property or land tax which is common to all jurisdictions and cannot be avoided by moving will fall on the owners of capital both fixed and mobile, on immobile labour and local consumers. He concluded that, since owners of capital are also generally wealthy, the property or land tax is progressive.³ He qualified this conclusion by pointing out that the tax differentials between jurisdiction can be avoided by the act of moving, and therefore finally fall on those economic actors which cannot easily do so, immobile labour, consumers or tenants. This portion of the tax is therefore not a capital tax, but an excise tax, and is generally regressive.

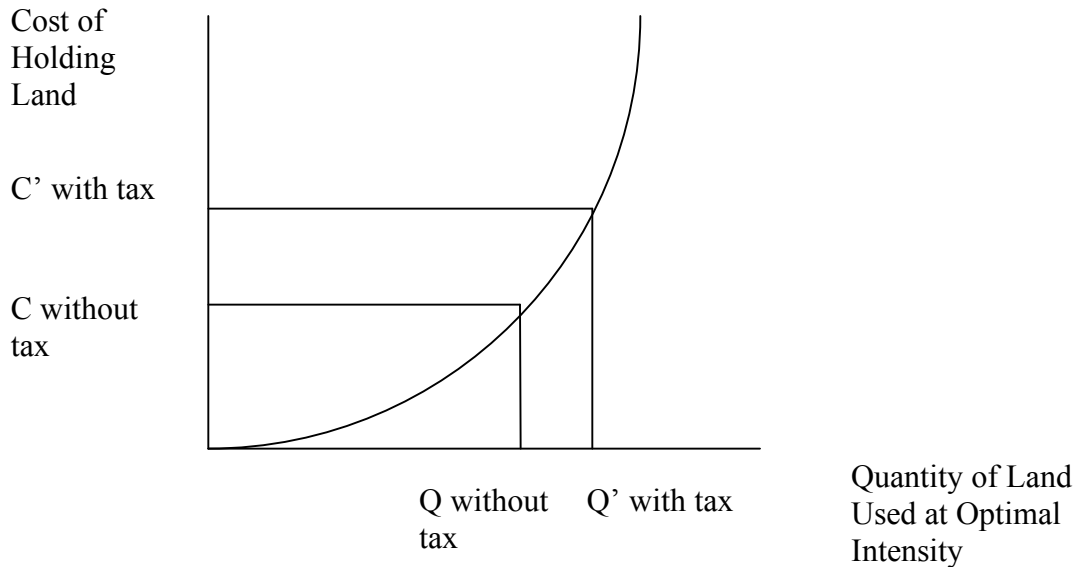
Slack (2001) supports the above conclusion by pointing out that since the imposition of, or increase in, a land tax (site value) will be capitalized into lower property values, and the tax is borne proportionately more by owners of land than is the case with a property tax (which would include the value of the buildings), the tax should be more progressive (borne relatively more heavily by high-income taxpayers than low-income taxpayers).

Does a land tax increase the intensity of land use?

The economic intuition about the land utilization effect of land taxation is that any factor which raises the cost of holding underutilized land creates an incentive to increase utilization. If land is not used at its optimal intensity, then raising the cost of holding land through a tax should induce greater effort for land utilization (see Figure 1). In many countries with highly inegalitarian distributions of land, there is good reason to believe that a significant quantities of agricultural land are not used at its optimal intensity for a variety of historical and institutional reasons, and that more effective land taxation would thus lead to more intensive land use.

Figure 1: Increase in land use intensity as a result of land tax

³ Mieszkowski, Peter. (Apr. 1972).



The figure illustrates a situation in which the supply of land used at optimal intensity is elastic over some range. This curve could apply to either an individual landholder or an economy. As the tax is imposed (the move from C to C') the landholder increases the quantity of land used at optimal intensity (the move from Q to Q').

The above observation is born out empirically. Wunderlich (1993), in a survey of agricultural land taxation in the US concludes from an exhaustive review of time-series data that there is “a positive relationship between higher property tax rates and more intensive use of farmland, which in turn is associated with more equal distribution of farmland.” Yamamura (1986) makes the same case for Japan, linking the imposition of a land tax to increased agricultural productivity. Strasma (2000) points out how the structure of Chile’s agricultural land taxation system successfully encourages full utilization of the land by basing assessments on the potential profitability of each land parcel, which are updated regularly based on a table of actual market transactions.

Other economists have expressed skepticism about both the land intensification of agricultural land taxation, but the skepticism turns out to hinge on the specific circumstances under which the tax is applied. Skinner (1991a and 1991b), for example, believes that it is not clear at a theoretical level why a land tax should encourage more productive use of land, unless it is tied to a reduction in export taxation (which would increase domestic output prices) because, “by definition an efficient tax should not affect land use decisions.” But he goes on to say, however, that, “it is possible that a sufficiently large land tax could spur landowners to work harder (an income effect) or to break away from reliance on traditional methods of production and seek new and more efficient methods.” So in effect, Skinner answers his own critique by again pointing out the incentive that an agricultural land tax creates to intensify effort, especially in places where there is reliance on traditional methods, or even more pointedly where land is

being held for non-productive reasons which have to do with imperfections in other markets (e.g., as a store of value due to low confidence in the financial system).

Does a land tax induce land redistribution?

The impact of agricultural land taxation as a mechanism for inducing redistributive market transfers, on the other hand, is not as clear. Considering Brazil, Assuncao and Moreira (2005) note that the land tax (Rural Property Tax - ITR) in Brazil is intended to support public policies for land redistribution, but has had little success. They note that there is a high level of evasion and default that hinders its efficiency as an instrument of landholding policy. The tax is collected by local governments where large landowners often exert substantial lobbying powers. In addition, the tax is based on “unused” land, which is notoriously difficult to define. In spite of these drawbacks, the authors still conclude that “appropriate land taxes might correct land prices in economies where they are above the discounted present value of agricultural inflows, inducing land redistribution from large landowners to more productive small peasants.” Similar tax policies, it is worth noting have been applied in the Caribbean in places such as St. Lucia and Jamaica, also with mixed results. Strasma et al. (1987) concludes that the use of agricultural land taxes for stimulating redistribution has not yet succeeded because land taxes are imposed at too low a rate to affect the decisions of property owners. Shearer, et al. (1991) are guardedly optimistic about land taxation as a policy tool to encourage redistribution in the Latin American context, but call for more research.

But Skinner expresses doubts that land taxes reduce speculation in land because the tax only results in a one-time land price reduction. This critique is valid in the circumstance in which land is the only asset the investor holds. But when an investor has the opportunity to invest in a variety of assets and the rate of return of one of them (e.g., land) is lowered, the investor will shift investment away from that asset. Especially in a progressive land taxation scheme, such shifting of incentives could induce market transfers of land. Skinner also objects to land taxation as an instrument for land reform. He says that:

“efforts to encourage land reform though this channel in Colombia and other countries have generally been unsuccessful for two reasons: First commonly administered land tax rates have been neither large enough nor progressive enough to affect land use. In one study of Colombia, L. Harland Davis concluded that: ‘Because of low rates the tax burden is a relatively small percentage of income and this fact means that there is little opportunity for the non fiscal effects to operate ... particularly...among the larger farmers, where the tax burden is lightest.’”

Low rates are the problem noted here, not the economic incentives created by the land tax. But in fact rates, while typically somewhat lower in Latin America than in OECD countries, are much less critical than below-market-value assessments in the failure of Latin American rural land taxes to have significant impacts on land use decisions. The issue for Latin American land use intensification is thus what level of assessment and

what tax rates could together change behavior and the willingness to intensify land use through technical change or by renting out or selling the land. Most of the observed rates in Latin America's agricultural land are somewhat lower than OECD countries, but combined with very low assessments they generate amounts of tax which are scarcely worth collecting and have little presumed economic relevance to landholders.

Why have countries adopted land taxation in practice?

Land taxes have been used for a wide variety of reasons. In the previous section of this report, we have surveyed the theoretical arguments for a land tax. However, practical motivations for the implementation of land taxation have often differed significantly from theoretical motivations. In light of this, before providing a detailed review of current international land taxation practices, we first highlight the motives behind several countries' recent moves towards land taxation.

Providing a source of local government revenues, independent of national government.

Taxes on agricultural land typically constitute a declining share of total, *national* revenues because agricultural land values typically become a smaller proportion of national wealth as economic growth changes the sectoral structure of the economy. Despite this trend, land taxes remain a significant source of *sub-national* revenues. Their importance in the package of sub-national revenue sources ranges between 2 percent in the Russian Federation and 26 percent in Estonia.

In the United States, for instance, property taxes have been extensively used to give local governments a local source of revenue collection to finance important services, such as education (e.g. Connecticut). Internationally, as seen in Armenia, Estonia, Poland and Russia, among others, national governments, rather than employing the land taxes for revenue, have created land value taxes as part of their fiscal reform packages (see Malme and Youngman, 2001).

Ensuring productive use of restituted land. In a number of Eastern European countries, land taxes have been imposed to ensure the productive use of restituted land, e.g. Estonia. Given that land was returned to the previous owner as a matter of principle, the government did not impose any conditions on the capacity of the owner to use the land productively. The land tax was explicitly seen as part of this process, and was established in order to encourage the productive use of restituted land, much of which was restored to heirs and owners who, through force of circumstance, had moved away from agriculture or other land based activities. Many former owners, or their heirs had moved to other parts of the world or other corners of the former Soviet Union. It was hoped that a land tax would encourage them to either return to resume their land-based work, or to pass the land on to others, by way of sale or lease.

Thus, Malme and Youngman suggest that the commitment of countries such as Estonia to a land tax was less motivated by fiscal concerns or concerns of neutrality than with the effect of the tax on a range of strategic issues. They point out that the tax yield in urban

areas was less than 2% of local revenue, an insignificant fiscal contribution. The real contribution, they suggest was in the facilitation and support of the social changes that were being pushed forward in that country especially those to do with land and property rights, land restitution.

Defining property rights. In most of the transitional countries there had been no well-defined property rights in land for several decades. The land tax and property tax, based on clear assessment and valuation processes, was seen as a mechanism that would assist in the development of local land markets and a local brokering and property based lending industry, both in the urban and rural areas.

Creating land valuation capacity. The need to conduct formal, well organised valuations requires a cadre of trained officials who have knowledge and active understanding of the markets. This provides a mechanism of transmitting an understanding of the transformation more widely, and creates a process for training and supporting a valuation industry which will be a core requirement of the development of urban and agricultural property markets.

Defusing transitional tensions. The transitional reform process naturally created tensions between the widely held belief in the association of land with the “national interest”, while at the same time pursuing the ideal of individual rights in land and other forms of property. A land tax was seen as the appropriate retention by the state of some of land rights with which it was empowered during the time of communism. “Clarification of a continuing public claim on a portion of land value in the form of an annual tax can help reconcile these competing claims.”⁴

Building on existing taxation systems. In Armenia, the fiscal system was shifted away from business income taxes to an enhancement of the existing property tax system, which was based heavily on land values.

Saving on assessment costs was one of the reasons for the adoption of a land taxation system in Kenya and South Africa (before the recent shift away from “land only” to “land and improvements” (see below). Authorities were encouraged in its use by the fact that the specifics of each property would not need to be captured and used in the valuation. In general land valuation is much cheaper than the valuation of buildings, both in the urban and rural areas, requiring less data and fewer site visits by valuers.

Discouraging foreign absentee ownership. In Australia, land taxation has been used to discourage foreign absentee land ownership. Van den Brink (2002) suggests that a land tax could be used to discourage the vacant holding of land by foreign buyers. This motivation is particularly well reflected in the practices in Queensland, where foreigners

⁴ Malme, Jane H. and Joan M. Youngman. (2001).

are taxed both beginning at a lower threshold (\$350,000 instead of \$450,000) and with a higher rate.

Discouraging speculative land holdings. Brazil, for instance, has used a land tax as an incentive to put pressure on idle land. In addition, Jamaica and Singapore both intend their use of land taxes or land based surcharges on property taxes as a discouragement of vacant landholdings and land speculation.

Managing political tensions around land. A land tax can diffuse political tensions around land in a number of different ways. In China and the transitional states of the former Soviet Union, the once-dominant rights of the state are being dismantled in favour of individual property rights. A similar scenario is playing out in a number of African countries, such as Kenya, Madagascar and Mozambique. In South Africa, in particular, there are strong calls for the state to adopt a more forceful approach to the land reform process, more swiftly restoring rights to the historically dispossessed blacks.

In all these cases, land, more than any other form of property is associated politically, emotionally and often even linguistically with the nation itself. There is a keenly felt sense of contradiction between the belief in the need for a public stake in the permanent fixed heritage of the country, the land, and the simultaneous enthusiasm for reform, manifested via an assertion of individual property rights, especially individual private rights over land. Participants at a recent Land Summit in South Africa reflected this tension in their vigorously expressed demands for land to be expropriated by the assertion of state rights, and simultaneously to distribute the land to “those who work it”, creating individual rights which are sustainable and defensible.⁵

The land tax offers an effectual bridge across this public policy divide, as it can address a number of the concerns on both sides. By reserving a claim in the land for the state in the form of a land tax, other claims held by the state in nationalised land rights can be dismantled without undue protest, thus creating a new combination of land rights involving both the state and private owners in a way that is politically feasible.

The same theme plays itself out in the South African context: a land tax represents the assertion of rights over land by the state, but does not simultaneously contradict itself by creating a fundamental challenge to the individual private rights of ownership of land. Land taxes can thus represent a combination of state and personal rights in the land heritage of the nation.

⁵ Malme and Youngman noted this tension in the Eastern European transitional nations they surveyed: “The economic advantages of a system of private ownership... frequently conflict with deeply held beliefs in the need for a continuing public interest in the permanent and irreplaceable heritage of immovable property.” (Malme, J.H. and Youngman, J.M. (1997). p. 3)

In addition, the levying of public charges based on some measure of land has been a part of economic life in every part of the world for centuries. It is almost inevitable that where there are human communities with organised government, there will be some mechanism of generating funds for collective use based upon a measure of land itself or the products of land.

Administration

A land tax is usually based on a regular assessment of the value of the land, and the value is often determined by referencing the prevailing market value. Certain rebates and exemptions are sometimes granted.

A land tax is seen as a public policy instrument of *value capture*, or the means by which governments, through any mechanism, attempt to recapture increases in the value of land that were not created by either the investment or labor of the landowner. In agricultural contexts, the land tax is based on the unimproved value of the land in its agricultural use. This value does not include any agricultural improvements to the land, such as fencing, drainage, or dams. Moreover, this value also does not incorporate any opportunity cost, i.e. the value of the land if it were used in another capacity, such as in residential or industrial capacities.

The base of a land tax is the monetary value of the site component of the total value of the property. A seminal study defines the value of a site as:

“.....the market value of the freehold with vacant possession free from any encumbrances other than easements or restrictions on user imposed by or under an Act of Parliament on the assumption that there are no buildings or works upon the land or anything growing except natural growth”⁶

To assess the market value of a site requires a number of practical rules and assumptions before it can be made operational. Note that this exercise becomes more complicated for the alternative of a tax on land *and* structures, or the value of improvements to the land.

In practice, there are a range of definitions and terminologies that are applied:

- “*market value*”: The property is valued as if the rights over it were currently sold in the market without any duress by a willing seller to a willing buyer, unencumbered by any loans or other financial obligations.
- “*prairie value*”: The value of the land as if there were no improvements or any geographical advantages relating to infrastructure or improvements.
- “*use value*”: This is used in favour of “highest and best use” in situations where the value of the land includes the potential for future development, usually for urban

⁶ Turvey, R. (1957). p.83

residential use. Agricultural land is often valued only on the current use, i.e. agricultural, not on the basis of potential future uses.

When it comes to the administrative systems used to implement a land tax, the following concepts are often used to explain the design of such systems.

“Area based land tax”. In some countries, the land tax is not based on the actual land value of each individual farm, but on a standardized price per hectare, adjusted by a fertility or location factor. This is in effect a simplified valuation, aimed at reducing the cost of assessment.

Self-appraisal. When the taxpayers themselves provide the assessment of the taxable value of the property, the process is known as self-appraisal. It has an advantage in that it is simple to administer, as the cost of appraisal is shifted to the taxpayer. In practice, taxpayers often have access to this information, having conducted valuations for other purposes. Self appraisal gives them an opportunity to provide this otherwise confidential information voluntarily. Under-appraisal is often discouraged by a provision that expropriation can take place at the declared value.

Community-assessment. International experience suggests that, in practice, even in very remote areas, the local population has a pretty good idea of land values, even if these are not correctly reflected in legal documents. The local mayor (tribal chief) and agricultural extension agent know what land is generally worth. This "community perception" is a promising avenue, which has been tested out successfully in several countries.⁷

Banding. A method of lowering the cost of appraisal, banding requires the assessing officer to assign each property to one of seven value bands, instead of performing a detailed valuation in each case.

Computer Aided Mass Appraisal. (CAMA). A means of performing valuations en masse by determining the key value creating variables by statistical analysis, and estimating values by applying the estimated statistical coefficients to locally collected data. CAMA is reported to be much less expensive than conventional valuation.

Thresholds. Many jurisdictions place a minimum threshold of land value, below which no tax is charged. This has a dual function: it both provides relief for the poor and lowers the cost of administration by avoiding the need to conduct a detailed valuation on a very large number of small properties. It also eases the transition when an area is absorbed into the tax base.

For a land tax to deliver on its promise of fairness, it must be administered in such a way as to ensure that assessments genuinely reflect the market value of land, or at least

⁷ Bell MEB, Bowman JH, Solomon, D Valuing Land for tax purposes in traditional areas of South Africa. (Conference Paper National Tax Association, Minnesota Nov 2005)

diverge from that ideal in a generally consistent way. In a practical context, the equity and efficiency of a tax are more dependent on the nature and quality of administration than on the design and architecture of the tax system itself.

From an equity perspective, it is less important whether assessments understate or overstate land values, as long as they do so in a way that is consistent from one taxpayer to the next. The essential point is that the tax share paid by each household should be determined by the proportion of the land value each one holds. In order to ensure this, it is a common practice for assessment quality to be monitored by statistical tests in which the assessed value of a sample of properties is compared with the actual value at which the properties changed hands. A mean or median of these values (the assessment – sales ratio) is taken and divergences from these means or medians is measured. (Bell and Bowman 1998) ⁸

A crucial component of this and other similar quality assurance tests is the ability to compare the assessment with the outcome of an observable market transaction. Pure land taxation does not lend itself well to this kind of quality control. If the land is valued in isolation from the buildings, this is inevitably a notional valuation, which must be adjusted by the addition of building values to derive a figure which is comparable with the only tangible data available, the market value of the improved plot. This makes it difficult and unreliable to test the consistency of assessments. Without such tests and monitoring, the quality of assessments depends entirely upon the appeal processes, and the courts which underpin them. In the context of political and social transition, the appeal process will generally be relatively inaccessible, and not fully trusted. Appeals alone cannot be relied upon either as a means of testing assessments or as a mechanism of quieting discontent, placing a heavy burden on the monitoring process. The land tax therefore needs to be equipped with particularly effective monitoring and appeal processes in order to enable them to meet the expectations of their designers.

The most important administrative challenge of the land tax is to maintain an up-to-date, judicially defensible roll of land titles and values. An infrastructure of chartered valuers is required, supported by appropriate legislation, whose valuations can withstand inevitable legal challenges. The process of valuing land, whether agricultural or urban, is generally well within the framework of conventional valuation, and can be accomplished routinely.

Tax systems based on impersonal and apparently capricious market values can create a sense of uncertainty in taxpayers who have become used to the comfortingly firm, apparently reliable hand of officialdom. Many taxpayers feel more secure with an officially determined figure such as that generated by the tax assessor than with one generated by the market. In this context, a land tax, initially relying on an area based valuation can create an official system which provides this initial sense of comfort, and offers a vehicle of transition. As markets in real estate develop and market based

⁸ Bell, M. and J. Bowman. (1998).

evidence becomes available, this information will begin to inform, and in some cases replace, the official rule-based value determination, thus offering a smooth transition.

Because the definition of land value is fraught with so many difficulties, the annual rental value of the site is often used as a base for taxation, rather than the capital value. This is because the rental value is theoretically the source of the capital value, because the latter is in fact the discounted present value of expected net rental flows. The use of rental values also has the advantage of not being immediately eroded or enhanced by the tax (Prest, 1981, p.32). There are however as many practical difficulties attached to this method as to the capital value method. The choice of rental or capital value is one of administrative cost rather than theoretical principle.

In the agricultural context, some countries have implemented extensive land tax relief mechanisms to take account of local stresses such as droughts, fluctuations in commodity prices, and other market conditions. All will have a dramatic bearing on the earnings of farmers, and have led some countries to provide for “reliefs”, or “circuit breakers”. However, the exposure of the farm income to these risks should already be reflected in the land price. Hence, economic theory would argue against providing such reliefs. And given farmers’ (in)famous lobbying powers the world over, practical considerations would also support this position.

Exempting the poor from the land tax is a more defensible policy recommendation. A minimum threshold could be established to accommodate this policy principle. Low value properties should be exempted, or zero rated. In Africa, a combination of factors have worked together to make the land tax a familiar, if not a popular institution. The low level of improvement to most land, the lack of capacity to monitor and value improvements, the popularity of a tax that burdens absentees and others, the high cost of administering improvement taxes compared with the low yield.

McCluskey finds that in general there has been a recent trend away from the taxation of land only to the inclusion of capital improved value (Mccluskey 2000).

Table 1. Use of land and improvements as property rates base in selected countries.

Country	Rates on value of site and improvements	Rates on value of site only	Other
Australia		*	
Botswana	*		
Brazil	*		
Cyprus	*		
Czech Republic			*
Estonia		*	
Hong Kong			*
Hungary			*

Ireland			*
Jamaica		*	
Kenya		*	
Malaysia	*		
Netherlands	*		
New Zealand	*	*	
Pakistan			*
Phillipines	*		
Poland			*
Singapore			*
South Africa	*	*	
Thailand		*	
Zimbabwe	*	*	

Source: Adapted from McCluskey, p. 13.

South Africa

The South African government is seeking to improve and accelerate the impact of its land reform strategy. One element of this, following the recommendations of the 2005 National Land Summit, involves the imposition of a land tax. Participants at the 2005 summit concluded that such a tax could be instrumental in achieving the following objectives: increasing the supply of land to the market and various land reform programs; intensifying agricultural land use; reducing the price of land, especially its speculative value; and contributing to the financing of land reform by the current owners of land.

Before 1994, many municipalities did not tax agricultural land at all, while others used a highly regressive tax system, dating from 1939, under which the first hectare was taxed 100 times more than the 20th. The right of municipalities in South Africa to tax all land, including agricultural land, was confirmed when the 1994 Constitution was passed. In 1998, a special sub-committee of the so-called “Katz Commission on taxation”⁹ issued its findings on the implications of introducing a land tax in South Africa. Subsequently, the Katz commission proposed a tax on agricultural land, including stipulations for its collection and retention at the local government level.

However, while the Municipal Property Rates Act passed in 2004 provided a national legal framework for taxing agricultural land, it also required local governments to tax the improvements on it for reasons of administrative uniformity and simplicity: property would now be taxed in the same way in urban and rural areas.

At the writing of this paper (July 2007), only three out of the 283 municipalities are implementing the new act. In the others, the old situation is still in place. It seems that many local governments have been hesitant to implement a tax, despite the fact that, as a

⁹ <http://www.treasury.gov.za/documents/katz/default.htm>

result of the extension of municipalities to include rural areas, it is in their statutory right to do so.

One of the main reasons for this lack of implementation is the absence of practical guidelines. As these are being developed, the following concrete suggestions can be made. Fortunately,

The **purpose** of an agricultural land tax would be to augment own-source revenues at local level, with a decrease in land prices and discouragement of vacant possession additional welcome bonuses. In South Africa, the maximum extent of negative impact on land values—the so-called **land tax capitalisation**—has been estimated at less than 5 percent, for an effective tax rate of 1 percent. To ensure the **conservation of areas with high bio-diversity values**, the existing system of declaring specific public and private lands conservation areas will impact appropriately on its taxable value and therefore on the liability of the owner or taxpayer. Already, the current tax legislation excludes conservation lands which are not used for commercial purposes from taxation. No further special exemption from the land tax is therefore required.

Collection of the tax should be conducted at the local level, if the purpose of the tax is to provide for an own-source of revenues at that level. International evidence clearly demonstrates that taxation systems are most efficient when the imposition of the tax and the expenditure of the tax revenues are done at the same level of government. This also boosts tax morale, as the benefits of the tax revenue will be seen within the community being taxed.

Certain **tax relief measures** should be implemented. There should be thresholds and phasing-in to lower administration costs, improve acceptability, and exempt the poorest landowning cohorts. However, there should be no relief for low agricultural prices or high input costs, as these risks are already discounted into the land price, while catastrophic and unanticipated risks are better dealt with through special dedicated mechanisms. In addition, blanket relief or exemption should not be given for farmers who provide certain services to farm workers living on their farm. Other mechanisms for compensating such employers are available in the Housing Code, and in the procurement processes of local government.

Communal areas. Innovative methods must be found, and have been tested in several other parts of the world, to put a value on this land and to fairly assign shares of the collective tax bill to residents who can afford it. Thresholds and use-value assessment will keep administration costs down, while providing relief to the rural poor.

Namibia¹⁰

In Namibia whites constitute 8 percent of farmers but own 42 percent of farmland. To address these issues, the Namibian government relies heavily on taxation of agricultural

¹⁰ Information from Oxford Analytica

land as the most significant element of its current land reform program. The land tax is a nationwide program that is collected annually. Having raised approximately \$4 million in tax revenue in 2005, the collected funds are earmarked entirely for redistributive land purchases, effectively internalizing costs and maintaining a self-sufficient system.

Land taxation rates in Namibia are set at 0.75 percent of the unimproved value of the farmland, with land values determined using a standardized metric per hectare and by accounting for the size of the farm.

In addition to raising revenue for land reform programs and reducing inefficient use of Namibian land, taxation also is intended to encourage an increased land supply and moderate pricing of agricultural land, as well as to specifically defend against foreign-owned land speculation. The tax policy charges an additional 0.25 percent of land value annually for every extra farm owned, and charges foreigners a higher land tax rate of 1.75 percent rather than 0.75 percent. In this light, not only will foreigners and speculators suffer heavier taxes, but the tax on holding additional farms also encourages individuals to sell land used inefficiently and to offer moderate prices, thus increasing the land supply at a modest price.

However, there have been several difficulties encountered while carrying out the land tax program. Firstly, the iso-value metric does not account for minor topographical variations that alter land values. Secondly, the extra charges for additional farms do not account for the aggregate size of all farms, meaning an individual holding several farms with a total of 10,000 hectares could be taxed more heavily than an individual owning a single 15,000 hectare farm.