IPTI Xtracts

Property Tax and Assessment News from Around the World

NEW ZEALAND - August 2017

Waitomo District Council New Zealand's most indebted local authority

With huge amounts spent on infrastructure over the past decade, the news was not altogether surprising for Waitomo District Mayor Brian Hanna.

Waitomo District Council is New Zealand's most indebted local authority, says the Taxpayers' Union, having worked out that Waitomo's residential ratepayers "owe" $24,600 each.

That is four times the national average for rural councils and the highest nationwide, according to the Taxpayers' Union's Ratepayers Report.

This did not come as a complete surprise to Mayor Brian Hanna, who said the council had spent a huge amount on water and roading upgrades over the past decade.

"We've always featured at the higher end of debt and rates," Hanna said.

"Maintaining infrastructure with a small population and large land areas does present its own challenges, but that's the reality of how small local government operates.

"We've made infrastructure upgrades and taken advantage of government subsidy schemes to do so – obviously this has reflected in our higher debt.

"What frustrates me about the Taxpayers' Union figures is it's suggesting we have racked up debt for no reason, when we have actually done a really good job for our community and our infrastructure."

Not only that but Taxpayers' Union's figure is on a per residential ratepayer basis and a large proportion of ratepayers in the Waitomo District do not fall under the classification of residential.

Hanna didn't necessarily see the debt as a bad thing.

"We've fixed all of our infrastructure and there are plenty of councils which haven't done that."

Hanna said his council has demonstrated prudent financial management by using debt to fund intergenerational projects and spread the burden to future ratepayers.

"Today's ratepayers shouldn't pay the full cost of the upgrades.

"We want to spread it over several generations, over the lifetime of the assets."

At $2927, Waitomo also has the highest average rates bill of any rural council, nationwide.

Hanna admitted rates are high, but said it's where the costs lie.

"We would love to have lower rates, but we have a certain amount of costs and a certain amount of people paying for it.

"Now that we have completed the upgrade work we don't anticipate large rate movements over the next 10 years."

Affordability is always at the forefront of council's mind, Hanna said.

"The long term plan is in its initial stages, but one of the key ingredients will be to reduce debt over the next 10 years."

Waitomo's debt has been around $42 million for the past five or six years, despite the last long term plan's prediction of it climbing to over $50 million, Hanna said.

"We have managed to hold it there with smart financial management, which we will continue to do."

Hanna did not want to get into an amalgamation debate, but said Waitomo District Council works closely with both Waipa and Otorohanga district councils and there is a lot to be gained by working collaboratively.

Taxpayers' Union executive director Jordan Williams said Waitomo should be doing a better job managing what are poor finances.

"They simply need to live within their means – that's the obvious answer," Williams said.

"But there is no easy way out when you borrow up to your eyeballs."

Williams couldn't offer much in the way of a solution for Waitomo, but said some tough decisions were going to have to be made.

"Our role is to provide sunshine and transparency on how bad the situation is and no doubt ratepayers will be seeking some leadership.

"If council don't deliver, ratepayers will have a decision to make in two years time."

The Taxpayers' Union sourced its figures from each council's 2015/16 annual report, and divided it by the number of residential ratepayers – a figure which was obtained under LGOIMA in April.

Ratepayers not allowed in secret meeting about rates

Ratepayers will not be able to take part in a secret meeting held today to discuss rates funding and affordability.

Tauranga City Council will discuss the issues as part of a workshop in a confidential meeting this afternoon.

The official reason given in the finance committee's agenda was "to protect the privacy of natural persons, including that of deceased natural persons".

Committee chairwoman Gail McIntosh was asked why a topic as important as "rates funding and affordability" was not being held in the open.

She said the workshop would be a chance for councillors to look at all the options, separate the wheat from the chaff, and reduce it down to a manageable number of options.

"It is the first cut of what we should do.

If they put out 20 ways of doing something, it would confuse everybody. It was imperative that the first workshop was held in private, she said.

Asked whether this was a legal reason for taking the workshop in confidential, she said the council did not want to scare people about something that would not happen.

The council had to get rid of the extremes and discuss what was reasonable, practical and what people wanted. One of the options would be to stick to the status quo.

Councillor Rick Curach, who was unable to attend today's meeting because he was on leave, said he would have challenged the reason for holding the workshop in a closed session if he had been in town.

In an email to the Bay of Plenty Times, he questioned who's privacy was being protected.

‘A land tax would solve a lot of society’s problems’

The major parties' policies are unlikely to resolve New Zealand's socio-economic issues unless they tax land, argue Zbigniew Dumieński and Nicholas Smith

The 2017 election is less than five weeks away and the key policy battles largely revolve around inequality, housing, transport, and education.

However, the policies proposed so far consistently ignore the ubiquitous importance of land in our society and economy. This is not a revelation. It has been understood by numerous economists for at least 200 years: the majority of policies aimed at increasing our socioeconomic well-being - whether through better services and/or investment in infrastructure - mostly end up in the hands of landlords in the form of higher rents and land values.

We can see this everywhere in contemporary New Zealand society.

For example, National, New Zealand First, and ACT are campaigning to lower crime and improve community safety. Few would disagree with them, but, paradoxically, lowering crime inevitably leads to higher rents and land values. That makes local landlords wealthier, but also means the neighbourhoods are no longer affordable for the people the policies were supposed to protect. Obviously we should fight crime, but we should also better understand the wider socio-economic effects of policies, especially if they are designed to reduce inequality.

Education is another hot topic, with some parties - especially Labour, Greens and TOP -- arguing they would improve funding for all forms of education. Again, most would agree higher education funding creates societal benefits. However, better public education, as witnessed in the ‘Double Grammar’ schooling zone, results in higher rents and land values in the areas from which it can be accessed (especially in the context of our school zoning system). Thus, improving education in the current system is tantamount to a generous subsidy offered to those owning properties close to schools (especially schools with strong reputations).

Although arguably a mostly Auckland-centric topic in the context of this election, transport has become one of the more pronounced policy battlefields early in the campaign. Better transport for Auckland seems like a no-brainer given its incredible congestion. However, when transport infrastructure is improved, it inflates land values and, ultimately, rent for areas in the direct vicinity of the improvements. It has been demonstrated over and over that most transport infrastructure increases land values by far more than its costs. This means not only that the poor won’t be able to afford to live anywhere near the new infrastructure, but these projects are also essentially a massive transfer of wealth from taxpayers to land owners.

Even the poster child policy for addressing pervasive inequality, a universal basic income (UBI), falls into the same trap. Although only TOP has a UBI as a core policy, Labour and the Greens have talked about moving in that direction. A UBI seems like a great way to improve the efficiency of social welfare by removing bureaucracy and red tape, and protecting against the perceived threat of automation. However, under the current system, a UBI (or any other welfare scheme) ends up in the hands of the owners of land in the areas where the new money could be spent (while at the same time artificially repressing the incomes and rents paid by the taxpayers funding the scheme out of the fruits of their labour).

Without any fiscal reform, the UBI would do little to solve speculation and inefficient land use which drive many of our socio-economic issues.

The only possible solution to these problems lies in finding a way of capturing - to use for public purposes - the community-created land values and rents that are currently given away to landlords in exchange for nothing.

The most economically efficient and fair way of doing this would be to shift some (or, ideally, all) of our current taxes away from workers, businesses, and consumption onto unimproved land values.

Numerous benefits

Unlike any other products of labour (including houses), land is not produced and, therefore, won't disappear when we tax it. This is also why, unlike a tax on buildings, a tax on land values cannot be passed to tenants. Taxing land values eliminates the incentives for speculation or land banking and encourages landowners to use their land more efficiently, thereby reducing sprawl, waste and burden on infrastructure and the natural environment.

Taxing unimproved land values also allows us to reduce other harmful taxes that currently fall on production and entrepreneurship. This could help improve our economy's competitiveness and reduce the high cost of living. Even a local shift of rates from improvements onto land values would reduce the cost of constructing or renovating homes, while at the same time making holding land idle much more costly.

A tax on land values is also easy to collect, transparent, based on public information and virtually impossible to avoid - these characteristics should appeal to those concerned with the problem of tax avoidance.

Finally, a tax on unimproved land values is naturally progressive. Not only is it the most burdensome to those who hold valuable urban land they are not using, but it also it correlates better with benefits received (e.g. good transport infrastructure, schools, low crime, clean environment) than any other broad-based tax.

The above advantages of taxing land have long been recognised by prominent economists and even some of our historical leaders, including Sir George Grey and his followers whose efforts gave us a national land tax back in the late 19th century.

'An unholy trinity of opponents'

However, land taxes face staunch opposition from an unholy trinity: large landowners, speculators, and (pseudo-)environmentalists. Some fear a land tax might deprive them of the security associated with private home ownership.

For most families, home ownership is not as much about speculation as it is about having the security of a place to sleep with access to basic economic opportunities. In this context, at the psychological level, a land tax might be a potential concern, despite the fact that a reduction in other taxes would offer net benefits to all but the largest property owners. In particular, some income-poor and elderly home owners might see such a tax as a threat to their security and well-being.

Therefore, a method of ensuring a basic level of security to more vulnerable property owners should be a necessary component of any serious fiscal reform aimed at capturing publicly-created land values.

A citizens' dividend

Some of the proponents of a land tax argue that such a more comprehensive method could be provided by dedicating a portion of the revenue from the tax towards a per capita citizens' dividend: a form of UBI funded exclusively from land rents.

This dividend, like a UBI, would offer a basic level of economic security to both low-income landholders and the landless. However, using land rent as a source of revenue for the scheme would not only be more sustainable and in line with the broader condition of the economy than a UBI, it would also mean that the payments would not end up being privatised by landlords.

A more politically attractive way of providing basic economic security to low-income tenants and homeowners alike could be a universal individual exemption (UIE): a per capita, flat land tax exemption that both landowners and tenants could apply to any piece of land they use for work or living. Just like a citizens' dividend, the exemption should be high enough to enable an average adult to have secure access to enough good land (and associated socioeconomic opportunities) to live on.

Universal access to a portion of land sufficient for economic survival is not just morally sound, it is also necessary to prevent poverty, homelessness, socioeconomic exclusion and the despair and anxiety which is currently enveloping many New Zealanders right now.

The economic effects of the exemption are similar to a dividend, but the exemption could be easier to sell to voters. Tax exemptions tend to be more popular than “free money”, especially among more conservative voters. The link between the exemption and a land tax might appear stronger than between a land tax and any potential dividend or welfare schemes funded by that tax. Finally, unlike a dividend or a UBI, an exemption cannot be lost, stolen or spent in the same way that cash can. This may appeal to voters wrongly concerned about such payments deterring work or worsening addiction and gambling.

Trial it locally

Such a fiscal reform would not necessarily have to take place at the national level. It could be trialled in a town or city struggling with housing affordability, poverty, and speculation. Queenstown might be a perfect location for increasing the tax on unimproved land, while offering a dividend or universal exemption to the local residents. Most of the land in the region appears to be absentee-owned. A land tax with a dividend or exemption would intercept the outflow of rent and return it to local residents. It would also remove the incentives for speculation and promote a more efficient and sustainable land use.

It is time we understood the ubiquitous role of land in our society and economy. It is the foundation for our economy with its use for agriculture, housing, commerce and services being the key source of our country’s wealth, but also the key source of inequality.

Without finding a way of sharing the community-created land rents, no policy aimed at reducing inequality and poverty can hope to fully succeed.