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A case for Land Value Tax in Tasmania

Transitional Community Land Trust towards affordable housing

Promotor: Prof. dr. Walter Weyns

Medebeoordelaar: Prof. dr. Gert Verschraegen

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Emmanuel Gruzman

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Abstract

Betaalbaar wonen is een groeiende problematiek in Tasmanië, voornamelijk de mogelijkheid van betaalbaar *huren*. Het neoliberale discours is momenteel gericht op individuele huishoudens om een eerste woning te kunnen aanschaffen. Dit gebeurd door gezinnen met een laag inkomen voortdurend te subsidiëren zodat ze onbetaalbare woningen kunnen kopen. De hypothese is om betaalbare woningen eenmalig en daarmee voorgoed te subsidiëren, dan wordt het mogelijk voor huishoudens met een laag inkomen een woning aan te schaffen, zonder daarbij voortdurend individuele huishoudens te subsidiëren. De thesis onderzoekt of dit bereikt kan worden door Community Land Trusts in te voeren als transitiefase alvorens Land Value Tax wordt geïmplementeerd. De resultaten tonen aan dat Community Land Trusts inderdaad als *transitiefase* kunnen functioneren tot de volledige implementatie van Land Value Tax in Tasmanië. Land Value Tax kan vervolgens andere staatsbelastingen vervangen, zoals *conveyance duty* en *payroll tax,* en daardoor zal Tasmanië de *meest competitief belaste staat* van Australië worden. Het theoretische kader van het sociaal constructionisme en de standpunt theorie laat toe om een kritische analyse te verrichten op het actuele neoliberale discours in wonen en bovendien een *gemengde methodologie* van kwalitatieve en kwantitatieve analyses te verrichten.

Keywords: Land Value Tax; Community Land Trust; Affordable Housing; Rental Properties; Henry George; Tasmania; Neoliberalism; Standpoint Theory

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Acronyms

AAV	Assessed Annual Value
ABS	Australian Bureau of Statistics
ACT	Australian Capital Terretory
AEB	Average Excess Burden
BCA	Business Council of Australia
BHF	Better Housing *Futures*
CDA	Critical Discourse Analysis
CIE	Centre for International Economics
CHP	Community Housing Provider
CLT	Community Land Trust
CPI	Consumer Price Index
CV	Capital Value
DHHS	Department of Health and Human Services
FHBB	First Home Builder Boost
FHOG	First Home Owner Grant
HACRU	Housing and Community Research Unit
LV	Land Value
LVT	Land Value Tax
NSW	New South Wales
RBA	Reserve Bank of Australia
REIA	Real Estate Institute of Australia
REIT	Real Estate Institute of Tasmania
SHA	State Housing Authority
TG	Tasmanian Government
UTAS	University of Tasmania
VGO	Valuer-General Office

1 Introduction

This thesis focuses on issues that were raised in an earlier research undertaken by me as part of an internship with the state government (Gruzman, 2014). As a result of writing the report I became aware of the severity of the problem of managing public housing stock in Tasmania and of the broader issue of the affordable housing crisis. To improve the management of public housing, state governments across Australia, including Tasmania, undertook the transfer of the *management* of public housing to Community Housing Providers (CHPs). The objective of the report was to answer the question of whether the *title* for those dwellings should be transferred to CHPs alongside the transfer of management. 29 participants were interviewed for that report wherein a discourse became apparent. I did not analyse the discourse prevalent during the interviews, but it did shape my standpoints on affordable housing during the information gathering process.

The original idea for this thesis was to research the group discourse prevalent during the report with the Critical Discourse Analysis (CDA) developed by Fairclough (2010). According to Fairclough (2010, p. 12), neoliberalism "*has led to radical attacks on social welfare provision and the reduction of the protections that 'welfare states' provided for people against the effects of markets*." Fairclough (2010, p. 13) further asserts that neoliberalism "*had long been imagined and prepared by Friedrich Hayek, Milton Friedman and their followers*." These assertions regarding neoliberalism seem to be equally part of a discourse, albeit academic, which then forms the base for Fairclough to propose imposing a CDA on the supposed neoliberal discourse *long imagined by Friedman*. The realisation that the academic discourse is attributing housing unaffordability to neoliberalism, influenced the original idea to research affordable housing while applying a CDA method; and instead the decision was made to construct this research using the standpoint theory.

1.1 Standpoint theory

According to Punyanunt-Carter (2013), "*Standpoint theory is a means for understanding collective group discourse. The theory's most critical aspect is that a person's perspectives are created by their personal experiences in social groups*." In developing the project for the internship, similar *collective group discourse*, as mentioned above by Fairclough, regarding neoliberalism triggered a change in my personal experiences. Besides, it became clear during the research that public housing is not viable and therefore needs constant subsidizing. My new perception was that instead of state subsidies that would establish affordable housing over the long-term, local governments were subsidising individuals through the provision of First Home Owner Grant (FHOG) increased by First Home Builder Boost (FHBB) and HomeShare. I realised that if state governments were to subsidize land for the common good this would create long-term affordability for the individual.

This insight forms the underlying assumption that has directed this project. It derives from my upbringing in a family emigrated from the Soviet Union wherefrom some of my family, including my parents, were fortunate to flee in the late 1960's and early 1970's, while others of my family could not leave until after the Perestroika. Big governments need for control of thoughts, identity, religion, labour and capital are deeply engraved in my psyche. While on the other hand, I worked almost 10 years in a most capitalistic milieu performing commercial trade. There I experienced firsthand what capitalism in its crude form amounts to; among other, no one trusts governments and does all they can to avoid paying taxes. Government meddling with individual labour and capital is unacceptable to anyone working hard to create wealth. Especially within the milieu where I worked, which were not from an elite class with old money; but were hardworking, honest, integer people whom had a solid sense for social justice and almost all, whom could afford it, were philanthropists. It is with this perspective wherein the standpoint theory will take central place in constructing this research. As Harding (2009, p. 198) concludes that:

> *Standpoint theory provides a logic of research that focuses attention on problems that are deeply disturbing to anyone reflecting on contemporary challenges to Western thought and practice, and yet insoluble within the philosophical, political, and theoretical legacies that they provide.*

The lack of affordable housing in Australia is *deeply disturbing* to me and the *philosophical, political, and theoretical legacies* provided to date by the housing literature in Australia, did not offer a sufficient solution for affordable housing. Thereby, my standpoints are neither based on capitalism nor on socialism, neither on individualism nor on collectivism. They are rather on a middle ground in which I believe that common value belongs to the community while individual value belongs to individuals. My following written statements express my values that shape my views on affordable housing and which underpin this analysis:

- All that is shared is common. Individuals share air, water and land.
- Land is common. All individuals share land.
- Improvement on land is individual. All improvements are achieved through labour or capital.
- Labour is individual. If there were no individuals but only the common there is none to perform labour.
- Capital is individual. If there were no individuals to perform labour there is no capital.
- Tax is for the common. If there were no common but only individuals there is no need to tax.
- The basic principle of taxation should then be to tax the use of the common and not the individual labour and capital.
- What is for the common? Land.
- What is for the individual? Labour and capital.
- Why is land for the common? Because land is not produced by the individual.
- Why is labour for the individual? Because labour is performed by the individual.
- Why is capital for the individual? Because capital is the direct result of labour.
- Land is the term that defines all the surface of earth including land at the bottom of oceans.
- Labour is the term that defines any activity performed by the individual to add produce.
- Capital is the term that defines any proceedings resulting from labour.
- Betterment of the common not resulting from labour or capital belongs to the common and not to the individual.
- Betterment of land not resulting from labour or capital is an integral part of land and is common.
- Improved value of land which results from labour and capital belongs to the individual.
- Land Value Tax is the capture of betterment of land not resulting from labour and capital.
- Land Value Tax should be paid by the individual to the common.

These standpoints are inspired by my agreement with Henry George's views on the potentials of Land Value Tax (LVT) to tax common land while replacing taxes on individual labour and capital. These standpoints are also inspired by my awareness of potentially innovative solutions to the problems of affordable housing that are neither capitalist nor socialist in their approaches.

1.2 Community Land Trust

One of the innovative approaches to improving the affordability of housing are Community Land Trusts (CLTs) which are based on the introduction of LVT. CLTs separate the improved value of the *home* from the unimproved value of *land*, and by doing so, separates *individual* value from *common* value. In capitalism *all* value can be ascribed as individual, while in socialism *all* value can be qualified as collective. This *all or nothing approach* is not necessary and usually is prove for an underlying fallacy wherein choices are presented to be limited between two options. Reality rarely if ever allows solely for two options. CLTs, like LVT, allow for individuals to *own* individual homes while the land is held in trust for the common good to be *used* by individuals. This is achieved by allowing individuals to *buy* homes while *renting* land. CLT is a modified version of the application of LVT for *individuals* willing to join a *community*.

CLTs have yet to be introduced in Australia but there is growing interest in their introduction. In Tasmania the *Affordable Housing Strategy 2015-2025* is likely to identify CLTs as one way in which housing affordability can be improved (Verdouw, Flanagan, Gorter, & Habibis, 2015). This awareness of CLTs follows work undertaken by Crabtree et al. (2013) including the development of *The Australian CLT Manual*. Crabtree has recently started researching the possibility of undertaking a CLT case study in Tasmania that this research may contribute to.

1.3 Justification

The justification for researching LVT and CLTs in Tasmania are multiple. There has been no research on CLTs in Tasmania to date. There has also been no attempt to quantify LVT in Australia which is one of the reasons why it has remained off the political agenda. Hudson (2008, p. 40) points out that "*[w]ithout such a calculation, it is not possible to give a sense of proportion as to how much of the federal, state and local budgets a land tax could provide*."

The *Henry Tax Review* has already proposed a *broad-based* land tax, LVT in short (Australia's Future Tax System, 2010a, p. 90). Further, Wood, Ong, Cigdem, and Taylor (2012, p. 28) have calculated two possible *tax rates* for LVT in Melbourne to *replace conveyance (stamp) duty* as recommended by the Henry Tax Review. Yet, LVT has not been quantified for any state or territory in Australia. Therefore this thesis will undertake a quantitative analysis to quantify the magnitude of LVT in Tasmania. The potential of LVT cannot be researched by any other methodology except by quantitative research. This thesis will therefore undertake the task stipulated by Hudson and apply quantitative research to quantify LVT for Tasmania. Further, CLTs will be researched for their capacity to generate *ground rent* on common land. CLTs could then function as a transition phase for introducing LVT in Tasmania. This will be achieved by interviewing CLT stakeholders in Tasmania and in-depth financial analysis of land values in Tasmania.

1.4 Thesis overview

The next chapter will first review the literature on the current state of affordable housing, classical theories on appropriating land and CLTs. A research question will then be phrased resulting from the literature review. Chapter 3 will discuss the research methods and methodology applied. In chapter 4 and 5 LVT and CLTs will be analysed, while chapter 6 will encompass the *quantifiable* analysis of LVT and CLTs including some limitations to the findings. In chapter 7 the conclusion will be formulated with recommendations and a discussion. Chapter 7 will further formulate limitations and future research projects that can complete the findings of this thesis.

2 Literature review

Atkinson and Jacobs (2009, p. 234) explain that "*current housing research practice is informed by a set of foundational stories or narratives*"; further, those narratives are "*rarely acknowledged explicitly*". Thomas Piketty voices a similar critique about economists who developed a science and foundational stories of their own:

> *I view myself more as a social scientist than as an economist. I think the frontiers between economics, history [and] sociology are not as clear as what economists try to pretend. You know, economists try to pretend that sometimes they have developed a science that is so sophisticated that the rest of the world cannot understand, but I think this is a joke.* (92Y Plus, 2015, min. 6:03-6:25)

It is this *joke* mentioned by Piketty that has allowed for neoliberalism to socially construct a narrative that overwhelms the current housing research. This thesis agrees with Atkinson and Jacobs (2010, p. 157), and will therefore *not* seek to be appropriate and 'useful' research, but rather attempt at restructuring the social constructed narrative by the current housing research of recurrent subsidies for individuals; and challenge the joke told by neoliberal economists whom have the average net worth of the Australian households as a priority. There will also be an in-depth economic review of LVT that can challenge the current social constructed narrative. This will include a review of historical debates about private property rights in order to challenge neoliberal claims about individual rights to own land as private property. This approach combines applied sociology with a focus on social problems and the inequality caused by unaffordable housing (DeMartini, 1989).

2.1 Affordable housing

Affordable housing is a growing issue in Australia. As this thesis will make clear, purchasing a home in Tasmania is more affordable than other states and territories in Australia with the exception of the Australian Capital Territory (ACT). Yet Tasmania has an increasing amount of people experiencing mortgage and rental stress. Commonwealth or State funding to relieve individual mortgage and rental stress does not offer a solution to the affordability of housing and does not necessarily encourage economic growth. A proposed solution for housing affordability should attempt to establish sustainable affordable housing while encouraging the growth of the Tasmanian economy. Only then can affordability be addressed effectively and the underlying issues causing mortgage and rental stress be tackled.

2.2 (Un)Affordability in numbers

Anglicare Tasmania (2015) released a *snapshot survey* of Tasmania's private rental market in April 2015. The findings are that "*less than 1% of the properties surveyed were affordable*".

Anglicare Tasmania concludes that "*it was clear that the private rental market was largely unaffordable for people [on] a low income*."

According to Shelter Tasmania (2015, p. 2), in 2011, "*14,618 Tasmanian households were in housing stress*." Further Shelter Tasmania sums up that "*Tasmanian households are among the poorest in Australia. Median incomes are approximately $100 per week less than the national average and 30.7% of households survive on less than $600 per week*." Shelter Tasmania (2015, p. 2) recognizes that *"[a]lthough Tasmanian house prices remain relatively low, home ownership remains out of reach for those on fixed, low or insecure incomes*"; therefore the conclusion is that it "*is vitally important to address the shortage of affordable housing in Tasmania*."

The Economics Reference Committee (2015, p. 202) reports that in Australia for 2012 it was

> *estimated that there was a deficit of 539,000 affordable rental properties available for this [lower income renters] group. Available rental properties included some that were affordable for less affluent households but were already occupied by higher income earners.*

A deficit of 539,000 affordable rental properties does not represent an actual deficit of affordable rental properties but what, according to Economics Reference Committee (2015, p. 207), is "*referred to [as] the phenomenon of households 'renting down', that is higher income households occupying low rent properties*". If those higher income households would not rent down into affordable housing, then the deficit of affordable rental properties would decrease significantly. Affordable rental properties are what "*Hulse referred to [as] the 'boiling frog' of the private rental sector*" (Economics Reference Committee, 2015, p. 207); further in the view of Hulse, "*home ownership had attracted 'a lot of attention' with social housing receiving some interest, but the reality was that the private rental sector was 'growing'*". Affordability is currently oriented on homeownership and the state of social housing, while the 'boiling frog', which is slowly boiling yet soon will be (over)cooked, of affordable rental properties in the private rental sector is being overlooked.

Finally the Australians for Affordable Housing (2015a) reported that "*Australia has a shortage of 493,000 rental properties that are affordable and available to people on a low income*". It continues to state that in Australia *"[o]ver 150,000 people in private rental are paying more that [sic] 50 per cent of their income on housing costs, even after receiving rent assistance*". Further it is reported that according to data in the 2011 census in Australia the "*[r]ents have risen much faster than even mortgage repayments*" (Australians for Affordable

Housing, 2015b). As for 2009-10, *"[m]ore than 18,000 Tasmanian households are in housing stress*" (Australians for Affordable Housing, 2011, p. 8). The housing stress is different for homebuyers than renters in Tasmania; as for renters, the "*unlikely opponents Hobart and Sydney were battling it out for cities that put the tightest squeeze on renters*" (Australians for Affordable Housing, 2011, p. 2). This tight squeeze for renters in contrast with homebuyers can be illustrated in table 1 which shows the percentage of renters in rental stress and homebuyers in mortgage stress, for Hobart and Tasmania.

Table 1: Percentage rental and mortgage stress for Hobart & Tasmania, 2009-10

	Renters	Homebuyers
Hobart	33%	10%
Tasmania	29%	10%

Source: Australians for Affordable Housing, 2011, p. 8.

As seen in table 1, in 2009-10 there were 33% and 29% renters experiencing rental stress respectively for Hobart and Tasmania. While for homebuyers it is a third of the renters, with 10% experiencing mortgage stress in Hobart and Tasmania. The lower mortgage stress in Tasmania is because Tasmania is the second most affordable state or territory after the ACT. The *home loan affordability indicator* shows a decrease of affordability in Tasmania from 41.6% in December 1996 to 38.6% in December 2014. Tasmania is still notably more affordable than the national average which decreased from 36.6% to 31.7% in the same period. The ACT significantly outperforms Tasmania with affordability decreasing only from 51.1% to 49.1% in the same timeframe. Even though Tasmania is more affordable than the national average, the *proportion of income required to meet monthly loan repayment*s has increased from 24.1% in December 1996 to 25.9% in December 2014. This is creeping close to the 30% threshold that would consider it potentially becoming mortgage stress. The ACT proves that it can be different with a mere increase from 19.6% to 20.4% in the same period.[1]

Figure 1 shows the home loan affordability indicator in Australia for December quarters 2013-14. "*The home loan affordability indicator is a ratio of family income to average loan repayments. An increase denotes easier affordability*" (Real Estate Institute of Tasmania [REIT], 2015, p. 15.)

[1] Numbers provided by REIA.

Figure 1: Home loan affordability indicator Australia, December quarters 2013-14

Source: REIT, 2015, p. 15.

As seen from figure 1, the ACT is by far the most affordable territory or state followed by Tasmania in second place which is higher than the Australian average. The ACT has a "*Land Rent Scheme [which] is part of the ACT Government's Affordable Housing Action Plan*" (ACT Revenue Office, 2015). The advantage of this scheme is that the "*Land Rent Scheme gives a lessee the option of renting land through a land rent lease rather than purchasing the land to build a home*" (ACT Revenue Office, 2015). The Land Rent Scheme, as of 1 October 2013, "*is restricted to low to moderate income households eligible for the discount land rent rate of 2 per cent*" (ACT Revenue Office, 2015).

In Tasmania there are several schemes to help *first home owners* to buy into home ownership tenure. One scheme is FHOG increased by FHBB. These schemes, in Tasmania, were $30,000 until 1 January 2015 and are $20,000 until 30 June 2015 (Tasmanian Government [TG], 2015c). The FHOG and FHBB has long been criticized, Eslake (2013, p. 9) calls it "*cash handouts for first home buyers [that] have simply added to upward pressure on housing prices, enriching vendors [...] whilst doing precisely nothing to assist young people […] into home ownership*."

Another two programmes to help first home owners in Tasmania to buy into home ownership tenure are *HomeShare* and *Streets Ahead*. HomeShare can contribute for eligible low-income homebuyers up to 30% of the purchase of land and home, capped at $56,540 in 2015 (HomeShareTas, 2015). This contribution has to be reimbursed within 30 years or when the property is sold. Capital gains incurred on the sale belong for at least 70% to the homeowner. The remaining capital gains, depending on the percentage contributed capped at 30%, also have to be reimbursed with the original contribution to the HomeShare programme. Streets Ahead contributes $7000 for eligible low-income homebuyers restricted to properties sold by

Housing Tasmania; the $7000 contribution does not have to be reimbursed (Department of Health and Human Services [DHHS], 2015).

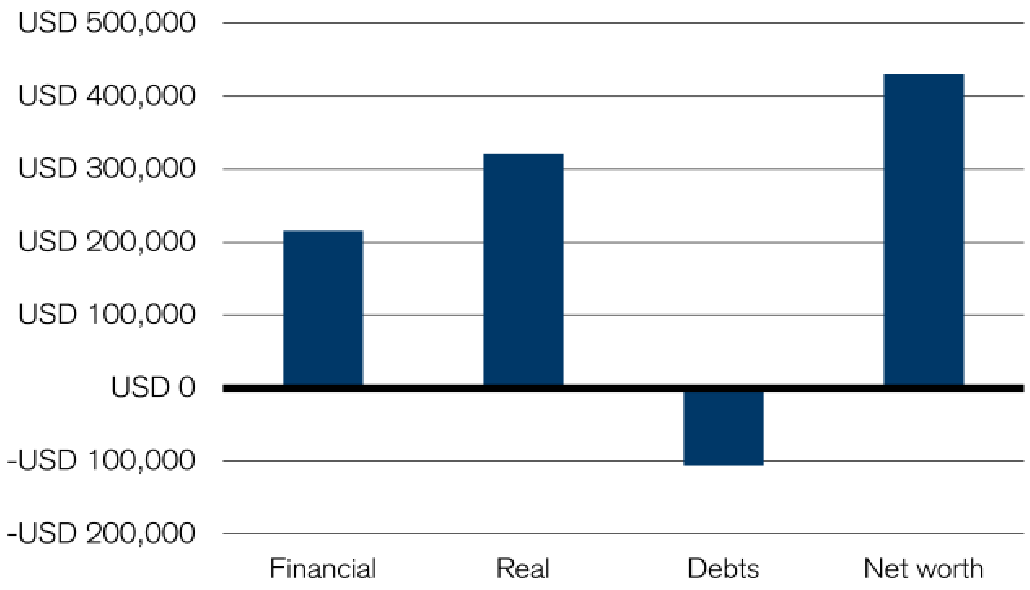
Shelter Tasmania sums up in 2014 (p. 17) and again in 2015 (p. 5) that the "*HomeShare and Streets Ahead schemes have facilitated the purchase of 1593 properties since 2001, making these both very valuable programs*." Further Shelter Tasmania (2014, p. 17; 2015, p. 5) recommends to increase HomeShare to 40% instead of the current 30%, like the Keystart scheme in Western Australia.

The next section will discuss the neoliberal emphasis on homeownership at the expense of affordability. The affordability literature shows that unaffordable rental is increasing in Australia and has become most pronounced in Hobart and Sydney. No research has yet been carried out concerning how the rental stock in Tasmania explains the extreme rental stress experienced. What is the current distribution of rental stock that causes rental stress to be more pronounced than mortgage stress in Tasmania? And what is the reason that allows the ACT to be significantly more affordable than Tasmania and the national average?

2.3 Neoliberalism and affordable housing

According to Credit Suisse (2014, p. 57), Australian households have the second highest wealth per adult in the world with USD 430,800, and a "*heavily skewed towards real assets, which averaged USD 319,700 and form 60% of gross household assets*" in 2014. Figure 2 shows the composition of household wealth in Australia for 2014 in USD.

Figure 2: Composition of wealth per adult in USD for Australia, 2014



Source: Credit Suisse, 2014, p. 57.

As figure 2 shows, real assets make up 60% of the total net worth. This heavily skewed 60% towards real assets is referred to as the *Australian dream* of owning your own home (Corderoy, 2015). It is this same Australian dream that on one hand allows for the Australian household to have real assets which averaged USD 319,700 and on the other hand have a property market which has becomes increasingly unaffordable as *a result of high urban real estate prices*.

The current neoliberal discourse prevalent in Australia seeks to uphold the increase of individual real asset value even if this is at the expense of affordability for the collective (Atkinson & Jacobs, 2010). The United States is ranked the most individualistic culture with a 9.55 rating while China at the other extreme is the most collectivistic culture with a rating of 2.00. Australia is ranked second most individualistic rated 9.00 followed by Britain with a rating of 8.95 (Suh, Diener, Oishi, & Triandis, 1998, pp. 585-587). Individualism is at the core of neoliberalism, which is often at the expense of the collective, as Harvey (2007, p. 2) states:

> *Neoliberalism is in the first instance a theory of political economic practices that proposes that human well-being can best be advanced by liberating individual entrepreneurial freedoms and skills within an institutional framework characterized by strong private property rights, free markets, and free trade.*

The strong emphasis on *strong private property rights, free markets, and free trade* is essential for the neoliberal economy in Australia, and serves as a framework to justify the

Australian dream. According to Harvey (2007, p. 16), the *"[r]edistributive effects and increasing social inequality have in fact been such a persistent feature of neoliberalization as to be regarded as structural to the whole project*." There is clearly an increasing social inequality at work in Australia with regards to affordable housing.

The current *reality* in Australia has been described by Jacobs (2014, p. 1) that *"[w]hilst policymakers profess a commitment to ease the housing problems faced by low-income households, many of the policies that are in place have the opposite effect*." According to Jacobs (2014, p. 1) this is because the "*vast majority of households and rental investors expect to see the value of their home and investments increase over time. Any fall in house prices would be unpopular with the majority of well-off Australians*." Jacobs (2014, p. 2) then continues with a second reason for policies with a distortive effect, because "*powerful groups, such as developers and building industries have a vested interest in the continuation of rising property prices. They stand to lose if house prices and rents were to fall*." Jacobs captures the tension between rising property prices for individuals on the one hand and declining affordability for the collective on the other hand. This is a reflection of a paradox between the wants of the neoliberal individual and the needs of the collective.

Jacobs (2006, p. 13) explains that the "*process of residualisation has been propelled by a set of policy interventions that have valorised home ownership*". Jacobs (2006, p. 13) also explains that the current "*discourses in housing management is [a] 'social constructionism'*" and that this discourse and policy-making "*reflects the influence of neo-liberal ideology*". The observation by Jacobs is that the neoliberalism ideology has a far reaching influence on various housing issues. While Newman (2014, p. 3291) would comment on this that "*[n]eoliberalism is a highly contested concept*" and further quotes Clarke that neoliberalism is "*a 'promiscuous' term that is widely overused*". For Newman, what occurs on state level does not have to be defined as adhering or resisting to neoliberal values which can be present at Commonwealth level. Newman (2014, p. 3301) therefore makes the case "*that local governments are not simply either agents of or resisters to neoliberalism; they are ambiguously positioned in landscapes of antagonism traversed by multiple political projects*." According to Newman, local governments are ambiguously positioned and can have other projects than simply complying or resisting to neoliberalism. It is possible, for example, to have LVT and CLTs at state level, even if at Commonwealth level there is no policy concerning these.

In continuation to the above rational of possible neoliberal values at Commonwealth level, Geddes (2014, p. 3148) also remarks that "*while neoliberal tendencies are observable everywhere, actual practices are uneven and contingently produced in place specific ways*". Geddes might, unlike Newman, agree that at Commonwealth there is a '*process of neoliberalisation'*, but these can be merely *tendencies* rather than actual practises. Therefore, Geddes (2014, p. 3156) concludes, that some local governance "*have not survived [neoliberalisation…] or live on only as a pale shadow of what they once were […]. But others have survived against long odds*". Geddes agrees that there is a downward pressure from centralised governments on state or local governance, but those can be at times merely neoliberal tendencies and do not necessarily shape the values at local level, which is in agreement with Newman's conclusion. This, as mentioned above, allows postulating that there can be another discourse, regarding LVT and CLT, on local level than on Commonwealth level.

Have neoliberal tendencies at Commonwealth level applied downward pressure on housing affordability at state level? Or is the solution to housing affordability at state government level? Is the impasse of centralised neoliberal tendencies and local affordability unsolvable? This thesis is an attempt at finding a possible bridge in the divide of neoliberalism and affordability. Following the recommendation by Jacobs, Berry, and Dalton (2013, p. 199):

> *As for future research, there are opportunities to probe the extent to which individual actors working in these settings attempt to negotiate alternative policy positions in the context of neo-liberal ideology and financial retrenchment.*

This thesis will take upon itself the research *to negotiate alternative policy positions in the context of neoliberal ideology and financial retrenchment* while allowing for affordability to become a reality in Tasmania. Is the neoliberal emphasis on strong private property rights, free markets, and free trade a paradox with affordability?

2.4 Appropriating land and taxing its value

Private property rights have become so ingrained in the current neoliberal *paradigm* that the sheer questioning of the justification to privately owned property can be seen as preposterous. Yet, some of the greatest minds in past centuries have occupied themselves with giving a justification to privately owned property. As will be discussed in the following section, for an individual to own common land value is not as straight forward as it is currently settled in the Tasmanian tax system.

According to Waldron (2004), "*Locke's theory is widely regarded as the most interesting of the canonical discussions of property*". In John Locke's (1823, ess. II, ¶ 26) theory an individual can *naturally* appropriate common land if "*he hath mixed his labour with it, and joined to it something that is his own, and thereby makes it his property*". One crucial condition is imposed by Locke (1823, ess. II, ¶ 26) to his theory of appropriation, that "*at least where there is enough, and as good left in common for others*." An individual can appropriate common land by mixing his labour with land, but as long as the individual leaves enough, and as good common land for others.

Immanuel Kant claims that if you can protect the land you took possession of then you can command it. Kant uses the example of the reach of a cannon shot which can decide the amount of appropriated possession. "*Moreover*," Kant (1991, p. 86) continues, "*in order to acquire land is it necessary to develop It […]? No*." Kant contradicts Locke and concludes that there is no need for individuals to mix labour or develop common land. It is also not necessary to leave enough, and as good for others, a cannon shot can help decide how much an individual can rightfully appropriate common land (Bromley, 2004).

Jean Jacques Rousseau agrees with Locke that an individual should occupy common land only the amount needed and that labour is necessary to appropriate common land. Yet Rousseau agrees with Kant and disagrees with Locke on the need of consent in order for an individual to have the right to appropriate common land. Rousseau postulates a fictitious Social Contract wherein consent and the right to appropriate land become possible (Rousseau, 1782, book I, ch. 9).

According to David Hume (1896, p. 262) on the other hand, private property rights are *conventions* as well as *justice* is, and what is meant by possessions, "*is not so easy as may at first sight be imagin'd*."

Thomas Spence *dissociates* between the rights of the individual to *use* common land to the right for the individual to *own* common land. The individual who gets to use common land must pay *rent* to the community for that right. Then the "*rent which the people have paid into the parish treasuries, [is] employed by each parish in paying the Government its share of the sum*" (1920, p. 11).

Unlike Spence where common land would belong to a *cooperative*, William Ogilvie does maintain that title of common land by an individual is possible but not more than an equal share. Ogilvie (1920, p. 43) further divides the value of common land into three parts: *"(1st) The* original *value of the soil [...] (2nd) The* accessory *or* improved *value of the soil [...] (3rd) The* contingent*, or* improvable *value of the soil*".

The *original* value of land is the *un*improv*ed* land value, while the *improv**ed*** value is the labour or development (capital) the individual has mixed with the unimproved value of land. The *improv**able*** value or *betterment* is the increment in value of land above the improvements made by the individual to the value of land. According to Ogilvie (1920, p. 44), improved value of land always belongs to the owner, but unimproved value and betterment "*reside in the community at large*". How does unimproved value and betterment get to reside in the community? "*The original value of the soil is [...] treated as a fund belonging to the public, and merely deposited in the hands of great proprietors, to be, by the imposition of land-taxes, gradually applied to the public use*" (Ogilvie, 1920, pp. 45-6). Ogilvie, unlike Spence, allows for improved land to be owned by an individual. Unimproved value of land cannot be owned by an individual, because it is already owned by common occupancy, while betterment of land is a direct result from the unimproved value which requires no improvements. In other words, if betterment did require improvements, then it would not be considered betterment but improved value and would belong to the individual owner of the land.

The proprietors can own the improved land, but the unimproved value and betterment is paid back to the community in the form of a *land-tax* or rent. Ogilvie, like Spence, dissociates the *use* of common land from *owning* common land. Yet Ogilvie goes a step further, and dissociates also unimproved value and betterment of land from improved value of land. By this *double dissociation*, proprietors can own improved land, while unimproved value and betterment of land is merely deposited in their hands, and therefore have to pay land-tax to the community on the value of land they do not own. Ogilvie (1920, p. 46) further argues that "*no scheme of taxation can be so equitable as a land-tax, by which alone the expenses of the State ought to be supported*". Land-tax *alone* should be imposed as the *only* and *single tax* to support the expenses of the state, because it is the only tax imposed on the value owned by the community and not owned by an individual. Labour and improvements (capital) are owned by the individual and therefore should be avoided to be taxed. It is with the value owned in common that the expenses of the community should be paid for and not with the value owned by individuals. The same as an individual cannot appropriate the value owned in common, so the community should refrain from appropriating value owned by an individual. Ogilvie (1920, p. 47) warns that in order to "*keep a land-tax equal, the valuation ought to be* *renewed from age to age*." This in order to assure what value is owned in common and what value is owned by the individual from year to year.

Thomas Paine makes the case that the proposed *ground-rent* should not be imposed solely on the *present possessors* who paid for the land with no *fault* on their hands. Instead Paine (1920, p. 184) suggests that "*the fault can be made to reform itself by successive generations, without diminishing or deranging the property of any of the present possessors*". Unlike Ogilvie, Paine does not impose a land-tax only on current proprietors but proposes a *moderate* ground-rent paid *itself by successive generations*.

Adam Smith (1776, book V, ch, II, § II, art. I) also explains that *"[g]round-rents are a still more proper subject of taxation than the rent of houses. A tax upon ground-rents would not raise the rents of houses. It would fall altogether upon the owner of the ground-rent, who acts always as a monopolist*". Smith prefers to tax ground-rents of landowners whom enjoy from the unimproved land value without any care or attention of his own, and because such a tax will not discourage any industry (labour or capital). According to Smith the most *reasonable* conclusion is for government to tax unimproved value of land which is a direct result of the investments by the government. As for distinguishing between improved and unimproved value, Smith (1776, book V, ch, II, § II, art. I) remarks that it "*should not, however, seem very difficult to distinguish those two parts of the rent from one another*."

James Mill (1966, ch. IV, § V) recognizes that taxation of unimproved rent of land could cover the expenses of government, but if land has already become private property then "*it would be [a] partial and unequal taxation; laying the burden of the state upon one set of individuals, and exempting the rest*." Mill (1966, ch. IV, § V) concludes that it "*is a measure, therefore, never to be thought of by any government, which would regulate its proceedings by the principles of justice*."

David Ricardo (2004, p. 132) commented on James Mill that if tax would be imposed on rent of land, "*[l]and would be so uncertain a property that no safe provision could by means of the possession of it be made for children*." Ricardo (2004, p. 132) adds that on "*the whole I should greatly prefer the present system of taxation*" Yet Ricardo (2004, p. 133) concludes, that if land would become the subject of taxation, then it would be preferable to "*consider the government at all times, both in war and peace, the sole possessor of the land, and entitled to all the rent*." Ricardo argues that taxing land would make land become an uncertain property and therefore prefers the present system of taxation. Yet for Ricardo, if tax were to apply on land, then he prefers that all land should be *nationalized* by the government which would then be entitled to the rent of land.

John Stuart Mill (1885, book II, ch. 1, § 2) makes clear that "*[p]rivate property, in every defense made of it, is supposed to mean the guarantee to individuals of the fruits of their own labor and abstinence*." Private property that guarantees individuals of their *own* labour is just, but private property that causes the labour of *others* to be transmitted to the landowners is a *mere incidental consequence*. This is a distinction between improved and unimproved value of land; the improved value is rightfully private property, but unimproved value is mere an incidental consequence. Further JS Mill (1885, book V, ch. 2, § 5) remarks that landowners "*grow richer, as it were, in their sleep, without working, risking, or economizing. What claim have they, on the general principle of social justice, to this accession of riches?*" JS Mill (1885, book V, ch. 2, § 5) therefore proposes that the "*first step should be a valuation of all the land in the country. The present value of all land should be exempt from the tax*". It is with this valuation that it would be possible to measure the *betterment* of land value. Because, according to JS Mill (1885, book V, ch. 2, § 5), in the second valuation "*during which society had increased in population and capital, a rough estimate might be made of the spontaneous increase which had accrued to rent since the valuation was made*." It is this betterment that should be captured by a general land-tax while the present land value should be exempt from the tax.

Henry George disagreed with JS Mill and wants to include the *present land value* as a base to be taxed. According to George (2006, p. 235), a "*tax upon land values is, therefore, the most just and equal of all taxes. It falls only on those who receive a unique and valuable benefit from society. And it falls on them in proportion to the benefit they receive*." The reason, according to George (2006, p. 235), why a tax upon land value is the most just is because it is "*taking by the community, for the use of the community, from the value that is the creation of the community. It is the application of the common property to common uses*." This most just and equal of all taxes, taken by the community for the community, taxes unimproved land value and not improved land values. Further George (2006, p. 231) wants to *substitute* "*this single tax for all other taxes [which] would save the entire cost of collecting them*." A *single tax* on unimproved land value can substitute all other taxes on labour and capital according to George.

Karl Marx on the other hand, thought that "*the book of Mr Henry George [is …] a last attempt to save the capitalistic regime*" (Diskin et al., 1992, p. 93). "*So the whole thing is merely an attempt, tricked out with socialism, to save the capitalist régime and, indeed, to re-establish it on an even broader basis than at present*" (Diskin et al., 1992, p. 101). Marx did not accept George's single tax and called it a "socialist panacea", which, "*we ourselves [already] adopted the appropriation of rent by the State amongst many other* transitional measures *which, as is likewise indicated in the* Manifesto, *are and cannot but be contradictory in themselves*" (Diskin et al., 1992, p. 100). According to Marx, taxing unimproved land value is only a transitional measure which creates a contradiction in itself until land is nationalized.

This section has made it clear that in the 18th and 19th century theories were proposed to justify individuals to appropriate common land by means of labour (Locke), cannon shots (Kant), consent (Rousseau) or conventions (Hume). This has been challenged and cooperatives (Spence) have been proposed until a separation of land in three values (Ogilvie) has become obvious: unimproved, improved and betterment. The unimproved value and betterment can then be captured by a land-tax or with a ground-rent over successive generations (Paine). This can also be divided by exempting all land that has already been privatized (James Mill), by nationalizing all land (Ricardo), or by capturing only a betterment tax (JS Mill). A single tax on unimproved value would then be an alternative (George), but this has been considered as capitalists' last attempt and can only serve as a transition until all land and its value is nationalized (Marx). Is LVT capitalism or socialism? It seems to have been accused of *both*, is it then *neither*?

2.5 Land Value Tax

As mentioned in the previous section, land-tax or ground-rent has been written about ever since the 18th century. The 20th and 21st century variant of taxing unimproved land value is LVT. If any doubts surfaces if a tax discussed in the 18th century can be considered for the 21st century, Blaug's (2000, p. 284) summary of the views of five Nobel prize winning economists should deal with some of those doubts:

> *And yet the concept of LVT continues to win endorsements from leading economists and even Nobel laureates. Paul Samuelson called LVT 'the useful tax on measured land surplus'. Milton Friedman agreed that 'a pure land tax is one of the least bad taxes that is possible'. James Tobin thought that it was 'in principle . . . a good idea to tax unimproved land, and particularly capital gains on it. Theory says that we should try to tax items with zero or low elasticity, and those include land sites'. James Buchanan asserted that 'The landowner who withdraws land from productive use to a purely private use should be required to pay higher, not lower, taxes'. Robert Solow argued that 'users of land should not*

be allowed to acquire rights of indefinite duration for single payments. For efficiency, for adequate revenue and for justice, every user of land should be required to make an annual payment to the local government equal to the current rental value of the land that he or she prevents others from using'.

Paul Samuelson, Milton Friedman, James Tobin, James Buchanan and Robert Solow all think of LVT as a relevant and appropriate tax for the economy of this day and age. In 1978 Friedman said during a videorecorded speech: "*And in my opinion, and this might come as a shock to some of you, the least bad tax is a property tax on the unimproved value of land, the Henry George argument from many many years ago*" (Gustafsson, 2014, min. 1:02-1:19).[2] Friedman, who was among the *founders* of neoliberalism (Harvey, 2007, p. 20), recognizes the Henry George tax on land to be the *least bad tax*. After this has been cleared, what is LVT?

LVT is a tax imposed on unimproved value of land. The unimproved value of land does not include any improvements added to the land, like development or structures fixed to the land. Any improvements would be considered as the improved value of land and are not subjugated to LVT. In other words, LVT captures (a percentage of) the betterment of unimproved land over the years. There is an increment in value of unimproved land which occurs for reasons independent of which individuals hold title over that land, this is considered *betterment* of unimproved land. If increment depends of which individuals hold title over that land, it would be considered improvements and not betterment. In Tasmania, § 11 of the *Valuation of Land Act 2001* (Tas), currently allows for three ways to value properties:

1. Land Value (LV)
2. Capital Value (CV)
3. Assessed Annual Value (AAV)

[2] In the same speech Friedman refers to the *unpopularity* of LVT: "*You know why, it is an interesting thing if you are talking about taxes, about why it is that the property taxes are so unpopular. It is not unpopular for good economic reasons, it is unpopular in my opinion for one simple reason: it is the only tax left on the books for which people have to write a big check. The income tax is the far worst tax, but, and I have to admit that I have some part of the guilt in this process, because during WWII I worked at the treasury and helped to design the withholding system. My wife has never forgiven me for it. But with respect to the income tax we have arranged it so it is taken off bit by bit and it is almost painless, with respect to the sales tax we pay a little bit of it each time, with respect to the corporate tax and excise taxes they are hidden in the price of the thing we buy, we do not even know we are paying them. But with respect to the property tax, that remains a tax that we as individuals have to pay and that we have to write a big check for. That is the fundamental reason in my opinion why it is so unpopular. And in fact I think, I hate to say this because it is giving hostages to fortune, but if you wanted to reduce the unpopularity of the property tax, the way to do it would simply be to provide for an effective method whereby it could be withheld at source in small payments and that would eliminate a large part of the objection to it*." (Gustafsson, 2014, min. 2:00-3:33.)

LV has the same principle as LVT wherein "*the capital sum which the fee simple of the land might be expected to realise […] assuming that the improvements, if any, on the land or appertaining to the land […] had not been made*" (§ 11.5a of the *Valuation of Land Act 2001* (Tas)). CV is when the value of "*the land is taken to include any structure that the Valuer-General determines is occupied or is capable of being occupied*" (§ 11.4b of the *Valuation of Land Act 2001* (Tas)). And AAV "*means the gross annual income*" (§ 3 of the *Valuation of Land Act 2001* (Tas)) of the land and any structure on the land but "*not to be in any case less than 4 per cent of the capital value of the land*" (§ 11.3e of the *Valuation of Land Act 2001* (Tas)). It is with these three valuation methods that the Valuer-General can value properties in Tasmania for the purpose of *land tax* which are a state tax, and for the purpose of *local government council rates*.

Currently, in Tasmania, land tax is valued by means of AAV and imposed on *general land* and exempt for *Crown* and *public lands*, and *trust land*. Other exempt lands are *principal residence*, *qualifying home business* or *primary production*, current *Pensioner Concession Card* holders or equivalent, *retirement villages* or ancillary to that purpose, and *Aboriginal land* (TG, 2015a). Then there is another list of *partially exempt land* (§§ 17-19c of the *Land Tax Act 2000* (Tas)). The land tax amounts and rates are: nil for less than $25,000, $50 and 0.55 cents for each dollar in excess of $25,000, and $1837.50 and 1.5 cents for each dollar in excess of $350,000 (sched. 1 of the *Land Tax Rating Act 2000* (Tas)).

The following is an example that explains the increase of unimproved LV. An individual in Hobart in 1994 buys vacant land and constructs on it a house as principal residence worth in total $113,000. The vacant land was worth $30,000 while the construction of the house was worth $83,000. Over the years the individual further improves the house to the value of $17,000. In the meantime, Hobart increases in population and government invests funds in infrastructure, public transportation, hospitals and education. The increase of population and the investments of government which results in improvements for the community and common land had a direct impact on the increment of land prices in Hobart. In 2014 the individual sells the house for $360,000 and makes a *capital gain* of $230,000. Due to inflation the *nominal* gain of $230,000 is a *real* gain of $89,188. The newly constructed house from 20 years ago, including the improvements of $17,000, has since lost in *real* value due to the usage, yet the individual makes a *real* gain. This gain can only be explained due to the increase in the *unimproved* LV, which is a direct result from an increase of population and the improvements done by government on common land.

Another factor that increases LV are investors who speculate on land prices thereby inflating the prices. The land prices are sometimes inflated to the point that they become a bubble, which is known as the *housing bubble*. According to Murray and Frijters (2015, p. 1) there are also "*landowner relationship networks and lobbying behaviour on successfully gaining value-enhancing rezoning [… it] suggests that many billions of dollars of economic rent are being regularly transferred from the general population to connected land owners*". Investors in land are often absentee landlords who keep land vacant or abandoned and out of the property market, or underutilised by not developing the land to its full potential. This then creates unnatural scarcity of land in the housing market. Investors who keep land vacant or underutilised have a low CV or gross annual income, and do not need to pay high AAV which can be as low as 4% of the CV.

Back to the example, the individual pays no capital gains tax or land tax, because the house is exempt from both as primary residence (Australian Government, 2015b). There is no tax that captures the increment of LV which results directly from population growth, common improvements or land speculation. Yet, housing becomes unaffordable as a direct result of increments in unimproved LV. What is a possible solution to this?

The recently published report on housing affordability by the Economics Reference Committee (2015, p. 75) comments: "*The committee also heard arguments in support of broad-based land taxation on the grounds that its application would help discourage excessive speculation and overinvestment by investors and owner-occupiers*." The broad-based land taxation, or LVT in short, is proposed again in 2015, after it has been proposed already in 2010 (Australia's Future Tax System, 2010a, p. 90), as a discouragement for excessive speculation by individuals. National Shelter (2011, p. 2) states that without "*reforming tax we will continue to experience market failure for our lowest income households*".

What can be reformed in the taxation that can solve housing affordability? What is written in economic literature about LVT that supports its capacity to possibly solve housing unaffordability? And is LVT appropriate within a neoliberal economy? Can LVT be part of the solution to solve housing unaffordability while not disturbing current homeownership and the Tasmanian or Australian economy? In the next section CLTs will be first discussed for their capacity to create affordable housing.

2.6 Community Land Trusts as a vehicle for introducing Land Value Tax

The first CLT was created in 1969 in the United States. According to the National CLT Network (2015) there "*are over 240 CLTs in the United States and the largest CLT, Champlain Housing Trust in Burlington, Vermont, owns over 2000 homes*." In England and Wales over 170 CLTs have been established since 2006. Further, there "*is also an emerging CLT movement in Belgium, France, Italy and Australia*" (National CLT Network, 2015). In 2013 *The Australian CLT Manual* was published. "*This Manual (first edition, 2013) represents Phase 1 of a broader project to develop comprehensive tools for prospective CLTs. Phase 2 will focus on detailed case studies and financial instruments*" (Crabtree et al., 2013, p. 3). Phase 2 is currently ongoing and one of the four case studies participating in phase 2 is from Tasmania.

"*CLTs can provide a mechanism for people who are unable to afford market-based home ownership. […] A rent component (called 'ground rent' in the Classic) is payable to the CLT*" (Crabtree et al., 2013, p. 13). A CLT can charge *ground rent* and therefore resembles LVT which charges ground rent in the form of tax on unimproved Land Value (LV). According to a report on CLTs (Crabtree, Phibbs, Milligan, & Blunden, 2012, p. 36), in the ACT

> *the Crown still owns all ACT land. Even though the Crown stopped charging ACT residents ground lease fees in 1971, these powers remain. The ACT government is now revising the ground rent practice in its land rent scheme […].*

The ACT still owns all its land and, according the *home loan affordability indicator*, is also the most affordable territory or state in Australia. Can owning land while charging ground rent create affordability? With exception for *The Australian CLT Manual* and the report where the above quote is referenced to, the academic literature in Australia has so far reviewed possible applications of CLTs for indigenous communities (Memmott et al., 2009; Crabtree et al., 2012; Crabtree, Moore, Phibbs, Blunden, & Sappideen, 2015). Can CLTs also be applied to the broader population in Australia? Even more, can a CLT model eventually apply to whole of Tasmania with LVT applied instead of *ground rent*? Can the viability and affordability of a CLT in Tasmania function as an indicator for applying LVT in Tasmania?

2.7 Research questions

In the above sections multiple rhetoric questions were formulated, combined the research questions could be summarised in this way:

1. What is the deficit in Tasmania's affordable rental housing supply?
2. In a neoliberal economy that emphasises individual home ownership, is there potential to improve housing affordability in Tasmania through the introduction of Land Value Tax with a transitional phase of Community Land Trusts?

3 Research methods

The theoretical framework applied in the thesis is social constructionism and standpoint theory. According to Rouse (2009, p. 201), standpoint theory has a history which goes "*arguably further to second-wave feminism more generally, or even to Marx and Hegel*." In order to research affordable housing, the personal standpoints written out in the introduction will guide the professional research in this thesis. This will allow being critical of the contemporary discourse within the provided neoliberal philosophical, political, and theoretical legacies. A CDA of the neoliberal discourse would not allow applying new solutions to affordable housing in the neoliberal discourse. It would only analyse a prevalent discourse without offering new quantifiable alternatives which can be proposed as sociological applied solutions.

Standpoint theory allows for a critical analysis of the social constructed neoliberal discourse while applying qualitative as well as quantitative research methods. As this research undertakes, both qualitative and quantitative research, the choice of methodology is *mixed* and applies both quantitative analysis and unstructured interviews. The research approach will allow for an *open policy subsystem*, wherein new ideas are allowed to emerge outside the current paradigm but not necessarily in contradiction with the neoliberal economy (Howlett, Ramesh, & Perl, 2009).

As mentioned in the introduction, one of the reasons summed up by Hudson (2008, pp. 39-40), for the failure "*to achieve land-value taxation*" until today, is because there "*have [been] made no attempt to quantify the magnitude of land rent that can be taxed*." This thesis will therefore apply a quantitative research methodology in order to quantitatively analyse the LV data available through:

1. ABS
2. Tasmanian budgets
3. Data requested from the Valuer-General Office
4. Data requested from REIT

This will allow calculating the LVs in Tasmania with *four* different LV *data sets*. After LVs are quantified, it will become possible to quantitative analyse the magnitude of land rent that can be taxed in Tasmania. Following the concern which is referred to as the 'boiling frog', and more specific, what the Economics Reference Committee (2015, p. 207) refers to as "*the* *phenomenon of households 'renting down', that is higher income households occupying low rent properties*". This renting down concern also requires a quantitative research method, with *data from ABS*, which can quantify what the real lack of affordable rental properties are in Tasmania. This will be achieved by mathematically redistributing households according to incomes within existing affordable rental properties and calculating the rental tenants that will still experience rental stress once optimization is achieved. In order to understand the results from the optimization, vacancy rates in Tasmania have to be quantitative compared nationally and historically. This can be done with *two data sets*:

1. Vacancy rates that will be requested from the Real Estate Institute of Australia (REIA)
2. Data available from SQM Research

As mentioned in the introduction, CLTs can charge ground rent and aim to enhance housing affordability while assuring economic viability. This ground rent resembles LVT which can therefore function as an indicator and vehicle to assess LVT as a functioning model for Tasmania. Interested parties and stakeholders of CLTs in Tasmania have been identified, including state officials that could potentially contribute to the forming of CLTs. The CLT stakeholder is the Tasmanian study case participating in phase 2 of the Australian CLT Manual, as mentioned in the introduction. Following a report by Gruzman (2014) on possible title transfers of social houses from Housing Tasmania to CHPs, Housing Tasmania will be requested to participate in an unstructured interview regarding possible grants of vacant land for the purpose of a CLT. During this interview Housing Tasmania will also be requested to provide data regarding available vacant land it owns, which will be quantitative analysed and categorised into potential CLT locations.

Tasmanian CHPs will be interviewed for their potential role in establishing CLTs in Tasmania. This follows the report by Gruzman (2014), wherein CHPs reported that they have potential vacant land which they can receive from Housing Tasmania at their request. A CHP from Melbourne which participates as a case study for phase 2 will also be interviewed. This can allow for a comparative study between the two case studies participating in phase 2, and between the potential of CHPs regarding CLTs, in Tasmania compared to Victoria. As CLTs in Australia is in its early stages, a structured or semi-open interview would not be optimal as there might be many questions which will not apply yet to the participants. Therefore the best method is to conduct interviews with unstructured in-depth questions where the participants can guide the questions to the issues currently on their agenda.

The justification for the selection of these individuals and groups is their actual or potential involvement in the formation of CLTs in Tasmania or their capacity to provide data concerning LVT. The participants participating in the research are the following:

- '*J*', Senior Manager, CHP in Melbourne
- '*L*', Stakeholder, CLT
- '*R*', Senior Manager, Housing Tasmania
- '*C*', Senior Manager, CHP in Tasmania
- '*U*', Senior Manager, Valuer-General Office (VGO)
- '*E*', Manager, VGO

The participants will be re-identifiable and therefore an institutional ethics approval is necessary. A minimal-risk application was submitted instead of a full application and was approved and cleared with the ethics reference H0014807. A minimal-risk application is sufficient because the only personal information collected from respondents is their name, employer's name and their position. To preserve confidentiality and anonymity of respondents they are identified by sector and role only. For senior managers, generic terms are used to describe roles (eg senior manager) to reduce the possibility that their role will lead to their identity being known. An email explaining the purpose of the research was sent requesting their agreement to participate in the research. The email provided a brief introduction to the project and its purpose and it included the Information Sheet as an attachment. The participants were asked to sign the Consent Form before being interviewed. The interviews comprised unstructured interviews of approximately 1 hour. The participants were interviewed at their place of work, in a café or over the phone.

4 Land Value Tax analysed

4.1.1 Henry tax review

In 2009, the Australian tax system was reviewed in what is informally known as the *Henry Tax Review* (The Australian, 2015). In Australia's Future Tax System (2010a, p. 90) there are a number of recommendations regarding land tax, one of these recommendations is:

> ***Recommendation 52:*** *Given the efficiency benefits of a broad land tax, it should be levied on as broad a base as possible. In order to tax more valuable land at higher rates, consideration should be given to levying land tax using an increasing marginal rate schedule, with the lowest rate being zero, with thresholds determined by the per-square-metre value.*

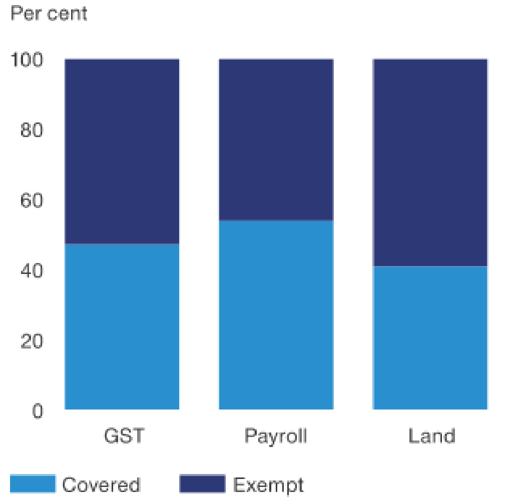
The recommendation is to broaden land tax to include all land. Land tax should not be an additional tax but *replace* other property taxes, like *conveyance (stamp) duty*. The Australia's Future Tax System (2010c, p. 679) considers, besides a broad-based land tax, also a broad-based payroll tax a good State tax because they will fall on workers and a broad-based land tax on landowners:

> *To the extent that the burden of a broad-based payroll tax will fall on workers and a broad-based land tax on landowners, the immobility of these resources (relative to capital) make them good taxes for the States.*
>
> *However, the current State payroll taxes and land taxes are not levied on the ideal broad bases.*

In Tasmania, on the other hand, the preference is to add exemptions to payroll tax instead of making it broad-based. This has been the case with *payroll tax rebates* for eligible positions since 2009 (*Employment Incentive Scheme (Payroll Tax Rebate) Act 2009* (Tas)). The payroll tax rebate has been prolonged again until 30 June 2015 with EISPR4 (TG, 2015b).

Regarding payroll tax and land tax, the Business Council of Australia (BCA) (2014, p. 17) calculated that "*almost half of the potential payroll tax base is exempt, while more than half of the potential state land tax base is exempt – increasing the burden on those liable for tax*". Presented in figure 3 are the percentages covered of the potential base for payroll tax and land tax in Australia for 2013-14.

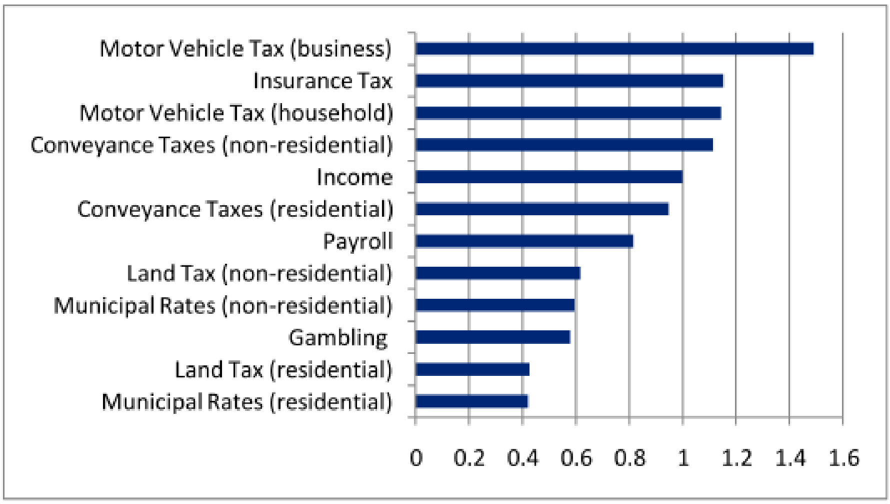
Figure 3: Breadth of selected tax bases in percentage, payroll & land tax, Australia, 2013-14



Source: BCA, 2014, p. 17, figure 15.

Figure 3 shows that almost half of the potential payroll base tax is exempt, as for the potential land tax base, it is more than half. The Henry Tax Review recommends a broad-based payroll tax as well as a broad-based land tax. Yet according to Deloitte Access Economics, the current land tax is more efficient than conveyance duty or payroll tax. LVT, which will be broad-based, should outperform the current land tax on all aspects and would be considered even more efficient than conveyance duty or payroll tax than land tax, currently, is. In figure 4 various taxes are compared for their efficiency, the lower the score for the tax the more efficient the tax is. A potential *residential* land tax, what would be the case with LVT, is compared with the current *non-residential* land tax and both are also compared with *payroll tax*, and residential and non-residential *conveyance taxes*.

Figure 4: Detailed efficiency rankings of state and Commonwealth taxes



Source: Deloitte Access Economics, 2011, p. 12, chart 3.2.

As presented in figure 4, residential land tax has a lower score and is considered more efficient than the current non-residential land tax. Even the current non-residential land tax is more efficient than payroll tax and conveyance tax. Payroll tax is more efficient than conveyance taxes, while residential conveyance taxes are more efficient than non-residential conveyance taxes. The graph does not include broad-based payroll tax to compare with broad-based land tax.

Unlike Deloitte Access Economy, KPMG Econtech does include a broad-based or uniform payroll tax. KPMG Econtech (2010, p. 53) calculated that *actual (current) land tax* has an Average Excess Burden (AEB) of 6, while a *uniform (broad-based) land tax* will drop to an AEB of 0. At the same time an *actual payroll tax* has an AEB of 22 and will drop with a *uniform payroll tax* to 13, which is still higher than the actual land tax (KPMG Econtech, 2010, p. 63). As for *conveyancing duties*, they have an AEB of 31, but this is an *underestimate* "*of the true excess burden of conveyancing duties*" (KPMG Econtech, 2010, p. 77). This is also reflected in a report by the OECD (Johansson, Heady, Arnold, Brys, & Vartia, 2008, p. 7), where the suggestion is for

> *recurrent taxes on immovable property being the least distortive tax instrument in terms of reducing long-run GDP per capita, followed by consumption taxes (and other property taxes), personal income taxes and corporate income taxes.*

Recurrent taxes on *immovable property*, like LVT, replacing other taxes, like conveyance duty and payroll tax, are suggested, as likely to be best for economic growth, but labelled as being *particularly unpopular*. According to the Centre for International Economics (CIE), on the other hand, *payroll tax* outperforms all other taxes including *land tax* and even *municipal rates*. This is in contradiction with most views on the performance of land tax and even more so municipal rates. CIE (2009, p. 84) seems to be aware of this and comments that *"[s]ome readers may be surprised to see the result for land tax*." Further CIE (2009, p. 84) explains that the "*result reflects the narrow incidence of the [land] tax […] between those activities that are reliant upon land and those that are less reliant upon it*."

It is the narrow incidence of the land tax which distorts its effectiveness, because it affects only those activities that are reliant upon land. While, according to CIE (2009, p. 84), payroll tax "*is quite broad and is broader than all of the taxes studied*" including land tax and municipal rates. This contradicts with the previously mentioned that "*almost half of the potential payroll tax base is exempt*" (BCA, 2014, p. 17). Yet, CIE (2009, p. 72) would agree that a broad-based LVT could be labelled "*as the most efficient tax available to governments.*

[…] However, there is some distance between the efficient land tax theorised by economists, and its actual application by politicians and policy makers." CIE would probably agree that a broad-based LVT that does not distinguish between commercial and resident properties, and between principal residence, primary production and general land, should be labelled as the most efficient tax available to governments.

4.1.2 Land value versus market value

The Australia's Future Tax System (2010b, p. 264) states that the "*future Australian tax system should increasingly rely on land values as a tax base*." What would according to the Australia's Future Tax System (2010b, p. 264) such a tax base mean for LVs? "*Some of the reduction in stamp duty would lead to higher property prices, whereas increases in land tax would lead to lower land prices*." How land tax will lower land prices is further explained.

Assuming that the market interest rate is 5%, so "*at a 5 per cent interest rate, a 1 per cent land tax is equivalent to a 17 per cent tax on economic rent*" (Australia's Future Tax System, (2010b, p. 270). While a 1.5% LVT will lower by 23% *market value* of land, and 2% LVT will have a 29% decline in the market value of land. This is due to the effect of LVT on the *economic rent* which will result in a decrease of the market value of land. LV will increase with the growth of the local economy, employment and wages, but the market value of land will decrease. An increase of LV results in an increase of LVT thereof. The difference between LV and market value of land is the value of land with or without tax.

A simplified explanation for the difference of LV and market value of land is the following: if land has a LV of $100,000 but a 100% tax is applied, then the buyer will end up paying $100,000 to the seller and $100,000 tax. The buyer who is willing to pay only $100,000 for that land (because of its LV) must reduce the $100,000 tax from the LV and will pay $0, or the market value of that land will be $0. If 50% is applied, then $50,000 will have to be reduced from the LV and the market value will be $50,000. The calculation is not that simple though, because the LV is based on its *economic rent*, which means, the potential annual *rental income* from that land multiplied by the *market interest rates*. So land with a potential rental income, or economic rent, of $30,000 annually when the market interest rates is 5%, results in a LV of $600,000; $600,000*5%=$30,000. A 1% tax levied on LV, which means the land has a liability of $6000 tax to be paid annually, will result as a tax on the economic rent. This will decrease the price the buyer is willing to pay, or in other words, this will decrease the market value. The tax cannot decrease the LV, because the LV is valued by the

Valuer-General regardless of the tax liabilities imposed on it. The way to calculate the tax on the economic rent due to 1% LVT is:

$$Tax\ on\ economic\ rent = \frac{\text{LVT}}{\text{LVT} + \text{interest rate}}$$

With 1% LVT and 5% interest rate:

$$17\% = \frac{1}{1+5}$$

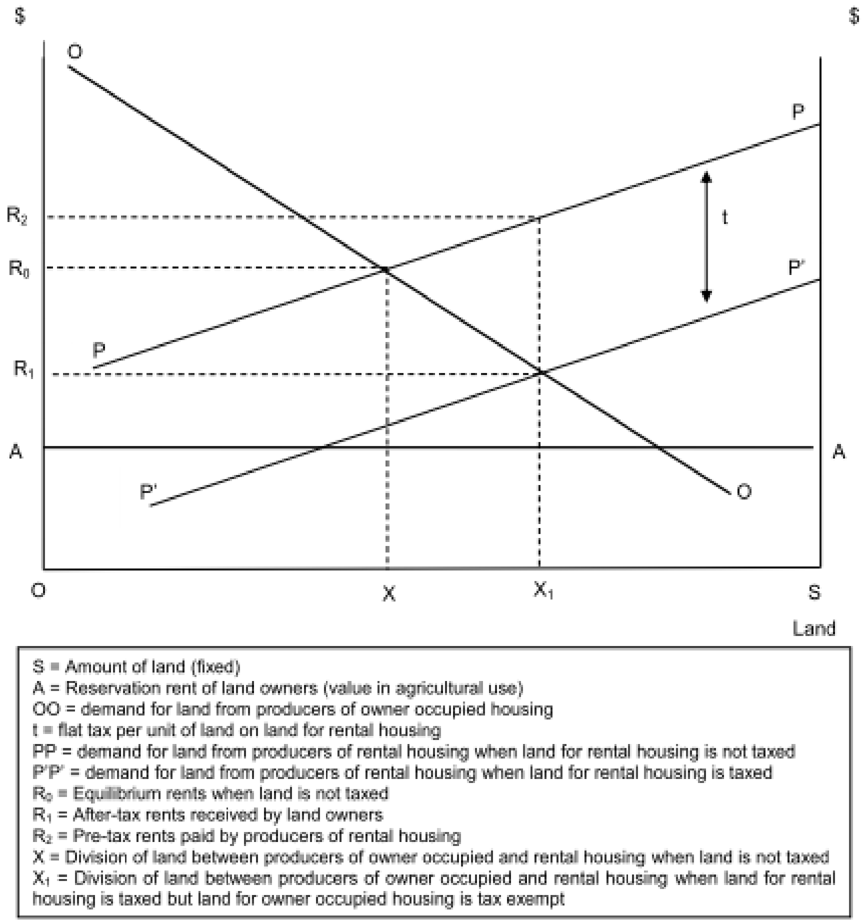
The resulting value the buyer is willing to pay on a $600,000 LV is a $500,000 *market value*; $600,000 (LV) – 17% (tax on economic rent) = $500,000 (market value). With 2% LVT and 5% interest rate:

$29\% = \frac{2}{2+5}$, which results in $600,000–29%=$426,000.[3]

That mortgage payments will be lower is evident as a result of the lower market value of land, but will LVT not be *shifted forwards* by landlords to rental tenants? Not if LVT will be applied as a broad based tax, as explained in Wood, Ong, and Winter (2012) and also in Wood, Ong, Cigdem, and Taylor (2012, p. 11), due to the resulting *inelasticity* "*and if the industry is competitive, the entire tax will be shifted backward to landowners rather than forward to home buyers and tenants*." Figure 5 shows the effect of the current distortionary land tax, *t*, decreasing the potential supply of rental housing from *PP* to *P'P'*.

[3] See appendix 1 for the full mathematical equations.

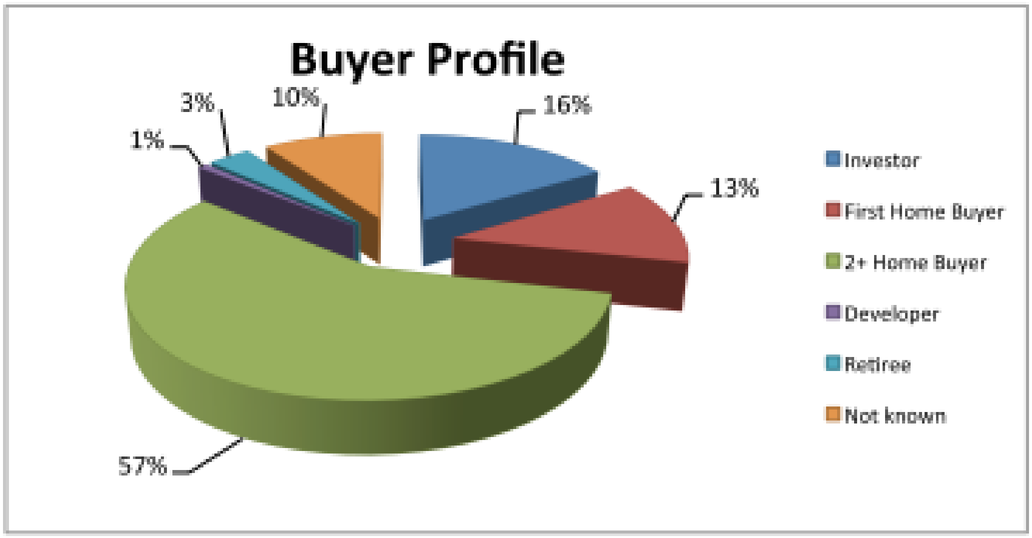
Figure 5: Distortionary land tax effects on rental housing versus homebuyers



Source: Wood et al., 2012, p. 9, figure 2.

In figure 5 it become clear that the *current distortionary land tax, which is not broadly based, decreases the supply of rental housing* from *PP* to *P'P'* by the amount of land tax rate *t*. It distorts the rental supply because of the competition between landlords on the one hand, and homebuyers, home businesses and primary producers on the other hand. This creates inelasticity and allows for landlords to shift forward the distortionary land tax to rental tenants. Besides, the distortionary land tax then also causes an undersupply of rental housing. An increased demand for rental properties with a low supply decreases the vacancy rate even further, this combination results in an increased rent with rental stress as outcome. With the amount of buyers of rental housing decreased, who are the property buyers in Tasmania? In figure 6, the various buyer profiles for March quarter 2015 in Tasmania are represented.

Figure 6: Buyer profile, March quarter 2015, Tasmania

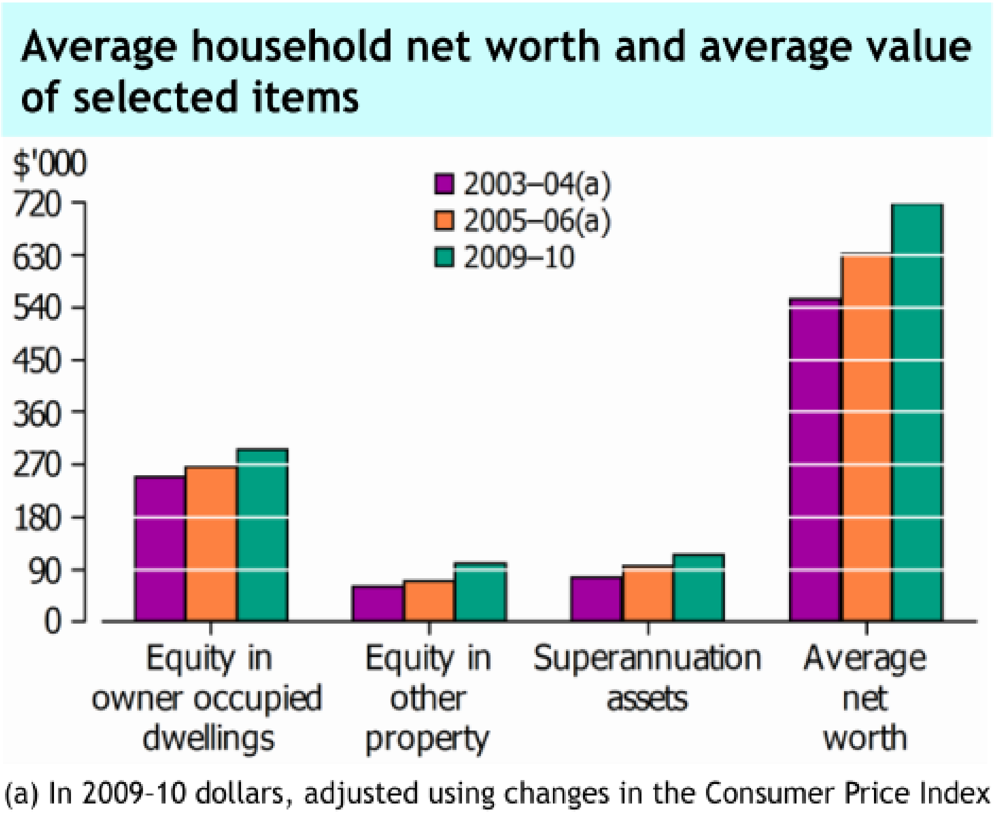


Source: REIT, 2015, p. 13.

As seen in figure 6, 16% in the March quarter of 2015 are *investors*, 57% are *second homebuyers* and 1% *developers*. With the current AAV or CV, landlords and investors have an incentive to minimize developments and improvements in order to be taxed as low as possible. This is because AAV and CV are valued for an important share on the improved value, while LV is always valued only on the unimproved value. Landowners then speculate on rising unimproved LV and intentionally leave vacant or underutilised land with a minimum of improvements and development. This is in order to be assessed annual lower or have a low CV so land speculators pay less land tax. While, if the valuation will be based on unimproved LV, land speculators will pay equal taxes as the neighbouring improved lands. This will remove the incentive not to improve their land and even provide an incentive to improve their lands in order to maximalise rent income to cover for the imposed land tax (Day, 2005). Once again, the landowners would not be able to shift forward LVT to the tenants, because the broad based LVT will create an inelastic property market which shifts LVT backward to the landowners.

This speculative investments in housing is also recognized by the Reserve Bank of Australia (RBA) (2015, p. 2) which warns that *"[o]ngoing strong speculative demand would tend to amplify the run-up in housing prices and increase the risk that prices in at least some regions might fall significantly later on*." The strong speculative demand for the run-up in housing prices which then translates in high equity, can also be represented by ABS (2011, p. 1) which states that in 2009-10 the Australian "*[n]et equity in home ownership in 2009–10* *averaged $297,000 across all households in Australia, and accounted for 41% of total household wealth*." Figure 7 show the *average household net worth* in Australia for 2009-10, grouped in *owner occupied dwellings*, *other property* and *superannuation assets*.

Figure 7: Average household net worth in Australia, 2009-10



Source: ABS, 2011, p. 1.

Figure 7 makes it clear that, in Australia for 2009-10, net equity in *owner occupied dwellings* is more than in *other property* and *superannuation* assets combined. This high equity is also due to the run-up in housing prices.

4.1.3 Transition phase, pension and inheritance

As discussed in section 2.4, Thomas Paine proposed a modest implementation of ground-rent over successive generations. Concerning LVT, the Henry Tax Review has also recognized that implementation should be modest with the appropriate transition mechanisms. Australia's Future Tax System (2010b, pp. 267-268) puts substantial proposals forward how best to enact LVT during the *transitional phase* while abolishing conveyance duty:

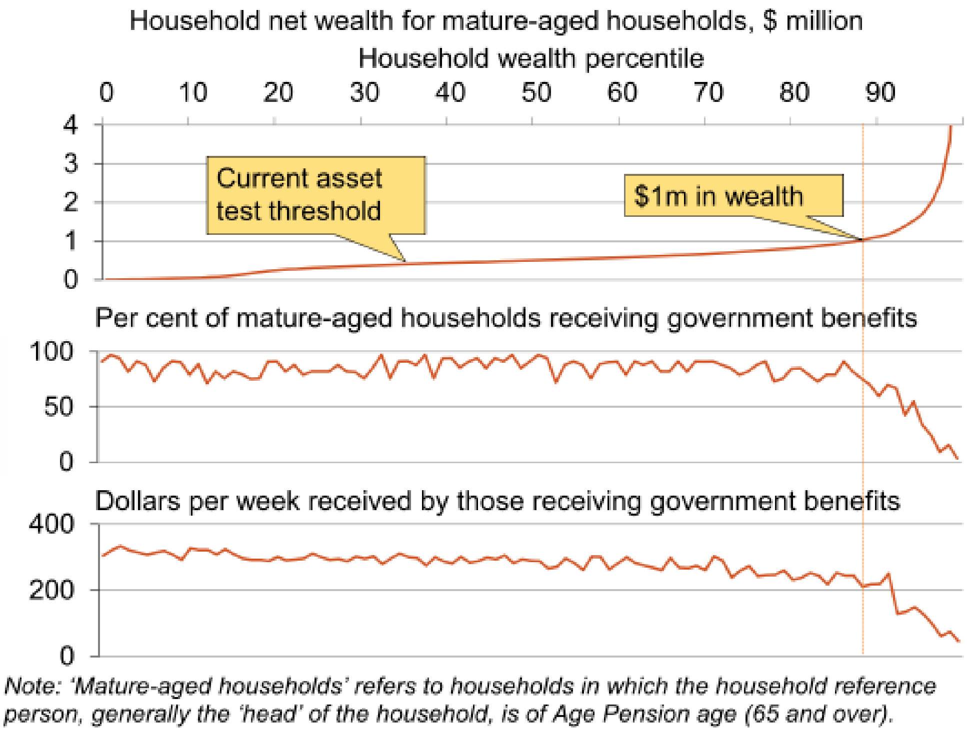
> *First, any special transitional arrangements to a broader land tax regime should be limited to existing owners. ...*
> *Second, the clearest need for a transition mechanism is for owner-occupied land. ...*
> *Third, transitional mechanisms need to be designed to minimise harmful unintended consequences. ...*

Fourth, transitional arrangements that reduce tax burdens to facilitate reform also reduce revenue collections.

Further, the Henry Tax Review proposes several transition mechanisms which are attached in appendix 2. In Britain, Lichfield and Connellan (2000) proposed several transition mechanisms 10 years prior to the Henry Tax Review.

For pensioners and low-income households there are also proposed transition mechanisms. LVT can impact, what Daley et al. (2013, p. 38) call "*asset-rich but income-poor households*" pensioners. To be eligible for state pension in Australia, there is an asset test for net wealth which progressively reduces payments above thresholds. Principal residence is appreciated for this asset test up to $142,500 even if the market value is a million dollars. Daley et al. (2013, p. 38) explain that this has as a result that of "*mature age households with a million dollars in net assets, about 80 per cent receive welfare benefits. On average they receive more than $200 a week*". Figure 8 displays, for Australia in 2009-10, the *household wealth percentile* compared to the current pension *asset test threshold*, the *percentage receiving pension payments* and the *dollar per week* they receive.

Figure 8: Household assets and age pension eligibility, 2009-10, Australia



Source: Daley et al., 2013, p. 39.

Figure 8 shows that about 80% of households, in Australia for 2009-10, with a million dollar in wealth receive on average more than $200 per week. A net worth asset of million dollars is not an impediment for welfare benefits to be paid in Australia. The welfare beneficiary is also exempt from land tax as principal residence. In the event that the million dollar asset will be inherited, the beneficiary of the inheritance is exempt, or partly exempt, to pay *inheritance* and *capital gains tax* (Australian Government, 2015c). All this while the million dollar assets' incremented value is due to unimproved LV and the homeowner is receiving welfare benefits. This current arrangement is according to Daley et al. (2013, p. 38) an *incentive* for state pension beneficiaries not to sell or "*downsize to housing which may be better suited to their needs, enabling more efficient use of the existing housing stock*." The reason is, if welfare beneficiaries sell or downsize their housing, the equivalent value would be above the eligibility threshold for State pension payments.

By enacting LVT, the above incentive will cease; as homeowners will have to pay higher LVT on high unimproved LV, this will then serve as an incentive to sell or downsize to better suited housing. As for *asset-rich but income-poor households*, an *equitable solution* can be that they will continue to receive state pensions, but, as Daley et al. (2013, p. 38) propose, that "*the government would accumulate a claim against their dwelling, which it would reclaim when the dwelling was transferred or sold*." Brownfield (2014, p. 5) explains, that this is also known as *reverse mortgages* or *home reversion products* by "*[r]eleasing the equity in the home [which] generally means retaining the right to live in the home but releasing some of the value stored in it*." Brownfield (2014, p. 5) further explains that "*[h]ome equity release removes some of this lumpiness and enables home equity to be accessed whilst the homeowner remains in the home*." This relates back to section 4.1.2 where ABS (2011, p. 1) already made clear that "*41% of total household wealth*" is accumulated in "*equity in home ownership in 2009–10*". According to Brownfield this creates a lumpiness which cannot be accessed, unless reverse mortgages or home reversion products are applied.

With regards to transition mechanisms to effectuate the change from the current AAV to valuing unimproved LV in Tasmania, there is a review by the Tasmanian Government (2013b, p. 106) where *recommendation 2* is a "*transition to a valuation cycle of two years for land valuation and four years for capital valuation*". This follows the same recommendations proposed by Access Economics (2010) on valuations for Tasmania. The Tasmanian state tax was also reviewed by the Tasmanian Government (2010) with various options for LVT, land valuations and transitions mechanisms discussed. The Australian Government (2011) reported that:

> *Tasmania cancelled its State Tax Review in November 2011, partly due to the challenging economic circumstances facing the State and recognising that the best prospect for State tax reform would be through a cooperative approach with the Commonwealth and other States.*

This cooperative approach with the Commonwealth has become possible in 2015 with the Commonwealth tax reform (Australian Government, 2015a).

In Tasmania, §§ 738-739 of the *Local Government Act 1962* (Tas) allowed for capture of *betterment increase*, this has been repealed in sched. 9 of the *Local Government Act 1993* (Tas). The City of Hobart (2013, item no. 6, p. 1) has requested in 2012 and 2013 that "*a report be prepared investigating 100% of the increase in land values attributable to rezoning decisions (betterment) be captured by the community*". That report has since been prepared and presented in 2013 to the Hobart City Council (Toomey Maning, 2013).

It has become clear in this chapter that, even according to reports on Australian taxes whose findings might represent certain interests and has other limitations intrinsic for assessing taxes, LVT is the most effective tax and outperforms conveyance duty and payroll tax. In the next chapter CLTs will be analysed to research its effectiveness in supplying affordable housing.

5 Community Land Trusts in Tasmania analysed

LVT can decrease the market value of land in Tasmania and create housing affordability. This chapter will analyse if CLT, which can charge ground rent and therefore resembles LVT, can be established in Tasmania. According to Crabtree et al. (2013, p. 244), in Tasmania the *Residential Tenancy Act 1997* (Tas) allows for leases longer than 3 years with "*[n]o legislative change required*." A CLT with long-term leasehold is therefore possible in Tasmania as well as with shared equity.

An interview was conducted with '*C*', the senior manager of a CHP in Tasmania. The CHP is currently managing community and public housing under the Better Housing *Futures* (BHF) scheme. All four CHPs participating in BHF are eligible under the *Sale and Development Agreement*, to receive from Housing Tasmania vacant land for a total value of $18.08 million (Gruzman, 2014, pp. 14-5). When asked whether the CHP would consider establishing a CLT in Tasmania on part of those vacant lands they will receive from Housing Tasmania, '*C'* replied that his main concern was the limitation of the resale price. He explained that a strong resale price is essential for the viability of CLTs because potential homebuyers would not purchase a home with limitations on the resale price. If they receive only modest equity gains they may be better off purchasing a home through *HomeShare*, which provides $56,540 (HomeShareTas, 2015), and where the loss of profit to the purchaser is only 30% of equity gains and not the full 100% of equity gains as with CLTs.

Under CLT arrangements, once the housing supply shortfall has been met, buyers will have to buy established homes and will not be eligible for FHOG increased with FHBB, of $20,000 (TG, 2015c). In other words, in order for a CLT to be attractive in Tasmania it must be competitive against a scheme that provides $76,540 with 70% equity gains. According to '*C*' this does not seem plausible in Tasmania due to low LVs.

In discussing the issue of whether vacant blocks of land could be made available for CLTs, '*R*' a senior Housing Tasmania manager observed: "*That is obviously possible*". However, he agreed with '*C*' that CLTs would compete with HomeShare:

> *We obviously have the shared equity scheme HomeShare […] in some respects it's a little bit like a CLT that it reduces the cost of homeownership. But it doesn't reduce it in that particular property in perpetuity, so the beneficiary is the first buyer if you like, and when they cash out at market rates, which is how it works, that equity comes back to us as percentage of that particular value, and that allows us then to use that to invest in another home.*

'*R*' agreed with '*C*', that HomeShare was an equal effective vehicle for homeownership as CLTs and possibly superior. '*R*' mentioned that 106 homes were purchased with HomeShare from July 2014 until April 2015, 102 were newly built homes while 4 were existing homes. The reason for most purchases being new homes was because of FHOG and FHBB according to '*R*'. '*R*' further mentioned that FHOG and FHBB only increase home prices resulting in FHOG and FHBB to be pocketed by house developers instead of the new home owners. During the interview the point was raised that with HomeShare there is only subsidy retention for 30% of the equity, while in CLTs the subsidy retention can be 100%. The reply by *R* was:

> *What you've got really, the two schemes are, the HomeShare scheme we have is a vertical equity, CLT is horizontal, isn't it? That's the difference, because under HomeShare we share effectively the house and land and ownership of that, and how that as a unit changes in price over time. With a CLT your horizontal equity is, we own below the surface if you like, the land, and so therefore if that increases by 50% we get that or we retain that. Above the top, above the line if you like, is the purchasers' equity and their interests there is defining on what happens with that.*

After '*R*' explained his perceived benefit of CLTs compared to HomeShare, he continued further pointing out another benefit CLTs offer that is absent from the HomeShare scheme, namely that CLTs would restrict *urban sprawl*:

> *And one of the benefits obviously of a CLT, if you took a backwards view and said, just imagine it was in place 40 years ago, ok? What you'd see in Hobart, for example, would be you'd have well located properties with a CLT model that would still be affordable. So, you would have stock in West Hobart or Bellerive or Lutana or New Town or whatever, that would have been potentially at that stage being developed and would still be areas as affordable. Whereas the downside of the approach we have with HomeShare is, if you take the same line, you say: well where are the homes being built? They are typically further out where the new stock is being developed, so hence a number of those people don't get to live in West Hobart because that's not where new homes are being built. And therefore whilst they have an affordable outcome, it tends to be there, and if you took that forth 20 years you might say where is the next block going to be? It could be Cambridge or somewhere much further out in that context. And that's certainly an advantage [for CLT] you can see.*

Here '*R*' referred to *urban sprawl* and *residualisation* which is occurring to social housing and low-income rental tenants and homebuyers. According to '*R*' there is not enough affordable stock in West Hobart or Bellerive or Lutana or New Town, the low-income tenants and homebuyers therefore have to move further away from the cities. According to '*R*', CLTs could have prevented these phenomena and could have created *40 years ago*, *well located properties with a CLT model that would still be affordable* today.

One concern expressed by '*R*' during the interview, was the capacity of a CLT to obtain the necessary funds to service and develop vacant land. Raising equity could result in an additional cost of $30,000 to $40,000. '*R*' also mentioned that future transferred land, under the *Sale and Development Agreement*, to CHPs could be used to establish CLTs by CHPs if they would choose to do so.

5.1.1 Establishing Community Land Trusts in Tasmania

According to '*L*', who is considering introducing a CLT in Tasmania as part of a case study researched by Crabtree et al. (2013), the potential vacant land where the CLT can be established has been identified and it is intended to allow for 10 to 14 dwellings to be established. The current asking price for the land is $300,000, with an additional $30,000 per lot for services, plus an expected dwelling construction cost of $120,000. There are no funds available to purchase the land or registered CLT members who could participate in purchasing the land. The servicing cost of each lot would be paid for by potential future CLT members.

'*L*' has not decided whether to charge ground rent or how much ground rent should be charged. '*L*' did not know yet if they would implement long-term leasehold or a shared equity scheme. Neither did '*L*' contact any parties to receive funding or land. The criterion to become a CLT member was also not defined yet but would not have low-income restrictions according to '*L*'. As to the question why to form a CLT in that area if LVs are affordable there anyway, '*L*' replied:

> *Affordable housing is really important, offering affordable housing now, I mean, our project is very affordable anyway. […] But for me it's important in terms of the future of the project […] having our village open to people who aren't wealthy and middle class. Like, what may cost you a $150,000 now, in 10-15 years' time that may be a $500,000 property, you know. So the idea, the way I see it with CLTs, if you're a waiter working in our café now, and you can afford to buy a property at the village as a waiter in our café, then in 25 years' time a waiter in our café will still be able to afford to buy a property in our village.*

'*L*' is concerned with affordability in 10-15 years' time, so the idea is to create a CLT now for *future affordability*. When asked about possible employment opportunities in the area where the CLT is to be established, '*L*' replied:

> *Yes, depressed rural economy, absolutely. Yes, we're very well aware of that, and, I mean, that's one of the reasons we're investigating setting up a social enterprise down there. So there would be a little bit of employment through the social enterprise. But no, people who would come there at the moment would have to take advantage of the very limited employment opportunities in the area. Or, create their own employment, so be working online or artisans. […] We intend to have 50 plus households in the village, and the idea there is, that with 50 plus households you have enough critical mass for an internal economy.*

'*L*' is aware that the CLT will be constructed in a depressed rural economy and more than an hour drive from Hobart, but '*L*' intends over time to *have enough critical mass for an internal economy*.

A second study case for phase 2, which is a CHP in Melbourne, is interested in establishing a CLT in Melbourne. '*J*', a senior manager of the Melbourne CHP recently had a meeting with the State Housing Authority (SHA) in Victoria. '*J*' reported after the meeting that: "*The meeting with the Director of Housing and DHHS staff went well and with a little work I believe we will get approval to manage the small estate and develop a Community Land Trust over the next two years*."

6 Land Value Tax and Community Land Trust quantified

This chapter will analyse and summarise all the quantitative findings for LVT and CLT including some limitations to the analysis performed.

6.1 Rental stress explained

Tasmania had in 2011-12[4] an estimated 207,700 occupied dwellings with 93.8% being houses and 5.9% flats while the remaining 0.3% are ‘other’ dwellings. 70.6% dwellings are owned and 27.3% are rented while 2.1% are ‘other’ renters or tenure. Among the homeowners, 35.3% own the dwellings outright and 35.3% pay mortgages. Among the renters, 20.9% rent from private landlords and 5.6% rent from the SHA. *Median weekly housing costs* is $32 for owners without a mortgage, $296 for owners with a mortgage, $250 for renters from private landlords and $100 for renters from the SHA (ABS, 2013).

Among the renters from private landlords an estimated 32,800 households have a low income, which is when their income is at or below the 40th percentile of the *equivalised disposable household income*. There being an estimated total of 43,400 renters from private landlords’ means that a staggering 75.6% of renters from private landlords have a low income. From the 32,800 low income households 33.8% experience rental stress, which is when low income rental households pay more than 30% of their gross income on housing costs (ABS, 2013).

The expected percentage of households being at or below the 40th percentile of income should be 40% of the households. That 75.6% of renters from private landlords are at or below the 40th percentile is therefore almost double the expected number. This can be explained due to there being a higher concentration of low income households who cannot afford to become homeowners and are therefore more represented among renters. This is also reflected by the *median ratio of housing costs to gross income* which is 17% for homeowners with a mortgage while for renters from private landlords it is 24%. As mentioned above, the median weekly housing costs for homeowners with a mortgage is $296 and for renters from private landlords it is $250. By calculating $296 as being 17%, the *median gross income* would then be $1741 for homeowners with a mortgage while $250 being 24% would be $1042 for renters from private landlords (ABS, 2013).

[4] 2011-12 is the last year wherefore data is available to compare all the various variables.

What can better explain the increasing rental stress in Tasmania are statistics provided by ABS (2012) for rental stress experienced not according to *housing costs* but rather according to actual *rent* paid. In table 2 renters experiencing rental stress in Tasmania for 2011, are grouped within weekly income brackets until $1250 and weekly rent is grouped in categories until $350. The ABS data comprises rental stress experienced by three households; *family household* which is 30.4% of 28,866; *lone person households* which is 44.1% of 18,545; and *group households* which is 23.7% of 3541. In table 2 the three households are weighted and then grouped, in total there is 34.9% weighted rental stress of a total 50,952 renters. Table 2 *redistributes* renters by income until $1250 within the available rental prices up to $350, the following results arises:

Table 2: Redistributing rental stress, weekly income <$350 & weekly rent <$1250, 2011, Tasmania

	$0-	*$75-*	*$100-*	*$150-*	*$200-*	*$225-*	*$275-*	*Rental*	**Total**
	$74	*$99*	*$149*	*$199*	*$224*	*$274*	*$349*	*stress*	**renters**
Nil income	611								611
$1-$199	1231								1231
$200-$299	2296	**1308**						1308	3604
$300-$399		3111	**3129**					3129	6240
$400-$599			3347	**4741**				4741	8088
$600-$799				4200	**2610**			2610	6810
$800-$999					2826	2128			4954
$1000-$1249						4499			4499
Total Stress								**11,788**	**36,037**
Total dwellings	4138	4419	6476	8941	5436	8444	7308	**45,162**	79.8%

Source: ABS, 2012; author's own calculations.

Table 2 demonstrates that there are 45,162 dwellings with rental prices up to $350 and 36,037 renting households with an income up to $1250, which gives a surplus of 20.2% more dwellings than renters in those affordable categories. Further it becomes obvious that 11,788 renters remain in rental stress even after redistributing. 10,480 of renters remaining in rental stress range between the categories of $75 and $200 rent. The *optimization* reduced the amount of households experiencing rental stress to 11,788 households or 23.1% out of a total 50,952 renters. That is 51.1% less renters experiencing rental stress than the current 34.9%. It is obvious that even after mathematically optimizing there is a shortage of nearly 12,000 affordable dwellings. When analysing the households separately, the greatest shortage is for the 44.1% *lone person* households that are experiencing rental stress.

6.2 Vacancy rate

The vacancy rate can explain more about the rental supply in Tasmania. REIA earliest recorded quarterly vacancy rates for Hobart is June 1987 for which the vacancy rate was 6.1% and 3.2% for December 2014.[5] Canberra and Perth had respectively vacancy rates of 4.1% and 4.2% for December 2014 and Darwin even a 5.4% vacancy rate. According to SQM Research (2015), Hobart had a 1.4% *residential vacancy rate* for the quarter of March 2015. The *national residential vacancy rate* for March 2015 is 2.1% according to SQM Research and according to REIA the *national weighted average vacancy rate* is 2.8% for December 2014. The proportion of median weekly family income spent on rent in Hobart has increased from 23.3% in December 1996 to 27% in December 2014. While the weighted average for capital cities has increased from 23.4% to 24.8% in the same timeframe. This pales in view of Canberra having only increased from 16.3% to 17.1% in the same period. The earliest recorded quarterly vacancy rate for Canberra has decreased from 4.1% in March 1980 to 2.4% in June 1987, but has since again increased to 4.1% in December 2014.[6] This makes it clear that renting in *Hobart is less affordable* than the average capital cities and significant less affordable than Canberra. It is also apparent that vacancy rates can indicate an undersupply of rental properties which then decrease rental affordability.

In Tasmania there were only 5.9%, or 12,250 flats for 2011-12 and a 3.2% vacancy rate in Hobart for the quarter December 2014. An added 1% rental property translates in 2000 dwellings which can alleviate the low rental supply. These rental properties should be studios and one bedroom apartments ranging between $75 and $150. When the lone person households would have an alternative where they can move to, they will free up the larger dwellings and especially the ones ranging between $150 and $200. This will then further redistribute households in the freed up rental properties. Besides, the higher supply will decrease the rents and relief current renters from rental stress. 2000 new studios or one bedroom apartments ranging between $75 and $150 could potentially solve most of the rental stress in Tasmania.

6.3 Land values quantified

REIT recorded the number of sales and their land prices since 1996. In table 3 the land sales, total LV and median LV is shown. With the Consumer Price Index (CPI), which functions as

[5] Numbers provided by REIA.
[6] Numbers provided by REIA.

inflation rate, the *inflation adjusted values* are calculated to the previous recorded year of the land price. This then allows for *real* gains and not *nominal* gains to be calculated.

Table 3: Land sales & LV, 1996, 2006 & 2014, Tasmania

	1996	2006	2014
Land Sales (*no.*)	1235	2111	1400
Total LV (*million*)	$50.876	$253.880	$192.588
Median LV	$33,500	$90,000	$115,000
CPI (*index no.*) / Inflation	68.1	86.8	104.7
Inflation Adjusted Value		$70,611	$95,339
***Real* Gains**		111%	6%

Source: Numbers provided by REIT; ABS, 2015b; authors' own calculations.

As table 3 shows, from 1996 compared to 2006 there has been an increase of 71% in land sales and a decrease of 34% from 2006 compared to 2014. The median LV increase is in real gains 111% from 1996 to 2006 compared to 6% from 2006 to 2014. If the recorded land prices represent *urban land*, *general land*, *rural land* or *primary production* is not recorded in the data and therefore the data from table 3 cannot provide further elaboration on LVs. According to the Henry Tax Review, LVT should be calculated *per-square-metre* and not by *aggregated* prices. In 2014, REIT also recorded the square-metre size of land sales, 1217 sales from the 1400 have a recorded square-metre size. By dividing the LV by the square-metre size the square-metre LV becomes apparent, this allows for a *median square-metre LV* to be calculated.

Table 4: Land sales per square-metre, size & LV, 2014, Tasmania

Land Sales (*no.*)	Total LV (*million*)	Total Square-Metre (*million*)	Median Square-Metre Size (m^2)	Median Square-Metre LV
1217	$167.002	41.462	1000.5	$75.67

Source: Numbers provided by REIT; authors' own calculations.

Table 4 shows the *total square-metre* to be 41.462 million for 1217 land sales. The *median square-metre size* per land sale is 1000.5 and the *median square-metre LV* is $75.67. The low median square-metre LV makes it clear that most of the land sales are not *urban* or *general land*, but *rural land* or *primary production*. LVT for *rural land* or *primary production* in Tasmania cannot be calculated according to the available per-square-metre data; because it is not recorded what land sales is rural land or primary production. The data can give an indication for future quantitative analysis what expected exemption and increasing marginal rates of LVT should be for rural land and primary production. This thesis will not venture into this analysis.

During the interview with '*U'* and '*E*', respectively a senior manager and manager from the VGO, data was provided to compare revaluation by the VGO for LV, CV and AAV for nine municipalities in Tasmania. The revaluations are expressed in percentages for changes from October 2008 to July 2014, table 5 presents the data.

Table 5: Percentage change for LV, CV & AAV, October 2008 to July 2014, 9 municipalities in Tasmania

Municipality	LV % Change	CV % Change	AAV % Change
Central Highlands	-1.5	-2.7	-2.8
Devonport	-4.5	-1.4	6.5
Hobart	13.9	8.5	10.5
Huon Valley	10.3	9.6	9.6
Kentish	3.8	3.5	4.4
Kingsborough	8.4	7.1	10.4
Latrobe	6.7	3.6	5.7
Southern Midlands	15.8	13.4	13.5
West Coast	-20.6	-19.8	-12.9

Source: Numbers provided by VGO

As is seen from table 5, while in Hobart there was a higher increase in LV price than CV or AAV, for Devonport there was a decrease in LV and an increase in CV and AAV. This data is therefore limited in scope in order to analyse differences in increasing values between LV, CV and AAV. Yet, for the capital city, Hobart, LV increased more pronounced than CV and AAV. Other data which was provided by the VGO was the total property sales and the value thereof, between 2008 and 2014, in Tasmania. 15,401 properties were sold in 2008 for a total value of $4.229 billion, while in 2104 13,729 properties were sold for a total value of $4.123 billion. This represents a *mean* property price of $274,593 in 2008 compared to $308,034 in 2014; and a decrease of 12% in property sales between 2008 and 2014.

According to ABS (2014), the total unimproved LV for Tasmania in 2014 is $60.7 billion while in 1989 the LV was, in current prices, $7.4 billion. $48.3 billion is *residential* land, $3.8 billion is *commercial* land, $6.9 billion is *rural* land and $1.7 billion is 'other' land. As is clear from the LVs above, in the last 25 years there was a significantly 720% increase of LV in Tasmania. Residential LV was $4.5 billion in 1989; this means that residential LV has increased 907% in the last 25 years. Yet the assessed land tax has only increased from $30.761 million in 1994-95 to $88.6 million in 2014-15, this is a 188% increase (TG, 1999, p. 174). $30.761 million land tax in 1994-95 was assessed for *principal residence*, *rural land* and *general land*, while $88.6 million in 2014-15 was only assessed for *general land*; because *principal residence* and *rural land* are exempt (TG, 1995, p. 60). If land tax increase is compared to an increase of LV in Tasmania which was $11 billion in 1994 to $60.7 billion in 2014, or a 452% increase, then land tax has only increased about 42% the increase of LV.

In the Tasmanian budgets, LVs are recorded according to *principal residence*, *rural land* and *general land* for purposes of assessing the land tax capacity in Tasmania. In table 6, the number of properties and LVs for *principal residence*, *rural land* and *general land* is compared between 1994-95 and 2009-10 in Tasmania.

Table 6: Land values and number of properties in 1994-95 compared to 2009-10, Tasmania

	Principal Residence		Rural Land		General Land		Total	
Assessed *Year*	Property *(no.)*	Value *Billions*	Property *(no.)*	Value *Billions*	Property *(no.)*	Value *Billions*	Property *(no.)*	Value *Billions*
1994-95	77,184	$2.543	8245	$1.641	59,224	$2.558	144,653	$6.742
2009-10	101,645	$13.085	8288	$4.487	56,254	$9.230	166,187	$26.802
Difference	32%	415%	0.5%	173%	-0.5%	261%	15%	298%

Source: TG, 1995, p. 60, table 3.5; TG, 2011, p. 5.15, table 5.5; author's own calculations.

As is clear from table 6, while there has been a 32% increase in properties of *principal residence* from 1994-95 to 2009-10, there has been a 415% increment in LV. In the *general land* category, which is the only category still taxed in 2014-15, there has been a decline of 0.5% in number of properties but an increment of 261% in LV. In the same timeframe the *average weekly earnings* in Tasmania was $502.60 in November 1994; this has increased to $958.40 in November 2014, a 91% increase (ABS, 2015a). While quarterly median house prices in Hobart have increased in the same period from $113,000 to $360,000, or 219%; and quarterly median other dwelling prices from $82.500 to $262.500, or 218%.[7] The increase in *CPI* or *inflation* for Hobart in the same timeframe has been from 64.1 to 104.7, or 63% (ABS, 2015b). This means that Tasmanian *average weekly earnings* has increased by 27% more than the CPI in Hobart, but a staggering 127% short of the increase in prices for dwellings in Hobart. This pales in contrast, as seen in table 6, with a 415% increment in LV for *principal*

[7] Numbers provided by REIA.

residence from 1994-95 to 2009-10 and an average of 298% increment in LV for all categories combined.

6.4 Land Value Tax quantified

In Tasmania there is, as seen in the previous section, $60.7 billion LV. With, for calculation purposes only, a flat rate of 0.5% LVT, Tasmania could collect $303.5 million. Conveyance duty amounts to $155.8 million in 2014-15, while all other taxes on property, excluding the current land tax ($88.6m), levied in Tasmania amount to $235.6 million in 2014-15. With, again for calculation purposes only, a flat rate of 1.5% LVT or $910.5 million, Tasmania could replace *all* other State taxes which amount to $894.6 million, excluding the current land tax ($88.6m), in 2014-15. If all other state taxes, except for *payroll tax* ($316.7m) and *conveyance duty* ($155.8m), are left in place which amount to $510.7 million, then LVT would need to cover $561.1 million (TG, 2014, p. 6.18). This potentially means that a 2% land tax rate, adjusted by an increasing marginal rate but levied on a broad-base, could replace both aforementioned state taxes in Tasmania.

To test the assumption above, in table 7, *aggregate* LVs are calculated according to the assessed LVs for land tax. In Tasmania considerably more than half the potential land tax base is exempt, 148,524 *principal residence* and 9267 *primary production* were exempt while only 63,753 *general land* pay land tax in 2012-13; 71% of the potential land tax base was exempt in Tasmania in 2012-13 (TG, 2013a, p. 4.15). The LVs in table 7, for 2009-10, are also divided in *principal residence*, *primary production* and *general land*. Only *general land* paid land tax in 2009-10 ($90m), the other categories were exempt. In table 7, LV below $25,000 are exempt from LVT while for LVs from $25,000 onwards an *increased marginal rate* of 1.55% is calculated until the highest rate of 2% is charged for LVs of $250,000 and higher. By multiplying the number of properties with the mean value the LV can be calculated, and by multiplying the tax rate with the LV, the LVT can be calculated. The *mean values* in table 7 are only indicative; the actual calculations were performed on 17 mean values and not on 8 as recorded in table 7. By calculating 2% LVT on an increasing marginal rate for 2009-10[8] the following results arise:

[8] 2009-10 is the last year detailed assessed LV is included in the budgets.

Table 7: 2% LVT by increasing marginal rate, 2009-10, Tasmania

Tax *Rate*	Upper *Limit*	Mean *Value*	Land value *(million)*	Properties *(no.)*	Land Value Tax *(million)*
			Principal Residence		
0.00%	$25,000	$12,500	$32.927	1888	$0.000
1.55%	$40,000	$32,500	$177.825	5350	$2.756
1.64%	$65,000	$52,500	$802.733	15,061	$13.165
1.73%	$100,000	$82,500	$2554.329	31,205	$44.190
1.82%	$170,000	$135,000	$3647.740	27,576	$66.389
1.91%	$250,000	$210,000	$2676.610	13,291	$51.123
2.00%	$1000,000	$625,000	$2994.375	7142	$59.887
2.00%	$1000,000+	$1500,000	$198.000	132	$3.960
Total			**$13,084.539**	**101,645**	**$241.470**
			Primary Production		
0.00%	$25,000	$12,500	$0.579	37	$0.000
1.55%	$40,000	$32,500	$1.485	45	$0.023
1.64%	$65,000	$52,500	$7.913	150	$0.130
1.73%	$100,000	$82,500	$33.830	408	$0.585
1.82%	$170,000	$135,000	$180.375	1328	$3.283
1.91%	$250,000	$210,000	$270.930	1299	$5.175
2.00%	$1000,000	$625,000	$1948.500	3659	$38.970
2.00%	$1000,000+	$1500,000	$2043.000	1362	$40.860
Total			**$4486.612**	**8288**	**$89.026**
			General Land		
0.00%	$25,000	$12,500	$51.966	3615	$0.000
1.55%	$40,000	$32,500	$118.762	3603	$1.841
1.64%	$65,000	$52,500	$462.053	8762	$7.578
1.73%	$100,000	$82,500	$1089.782	13,293	$18.853
1.82%	$170,000	$135,000	$1633.520	12,390	$29.730
1.91%	$250,000	$210,000	$1314.260	6426	$25.102
2.00%	$1000,000	$625,000	$3431.250	7413	$68.625
2.00%	$1000,000+	$1500,000	$1128.000	752	$22.560
Total			**$9229.593**	**56,254**	**$174.289**
	Average			**Grand Total**	
1.78%	**$331,250**	**$331,250**	**$26,800.744**	**166,187**	**$504.785**

Source: Tasmanian Government, 2011, p. 5.15, table 5.5; author's own calculations.

As table 7 shows, with 2% LVT on an increasing marginal rate in 2009-10, there was a potential for $504.785 million LVT. This could have almost replaced *conveyance duty* ($213.2m), *land tax* ($90m), and *payroll tax* ($257m) that amounted to $560.2 million in 2009-10 (TG, 2011, p. 4.12). LV has incremented since 2009-10 which will result in higher LVT for 2014-15 and will probably cover entirely these state taxes. The LVs are calculated on *aggregate* values because values *per-square-metre* was not available. LVT should be assessed per-square-metre and not aggregated, as recommended by Australia's Future Tax System (2010a, p. 90).

Based on the analysis in section 4.1.1, it is clear that replacing *payroll tax* ($316.7m) and *conveyance duty* ($155.8m), in total $472.5 million state taxes, with LVT, is the preferred option (TG, 2014, p. 6.18). Tasmania had nationally the lowest *average weekly earnings* of $958.40 in November 2014 while the Australian *average weekly earnings* was $1128.70 (ABS, 2015a). By removing payroll tax, the current 17.8% difference between earnings in Tasmania and nationally could be decreased by the abolished 6.1% payroll tax to a difference of 11%, this narrows the difference with more than a third (TG, 2015d). The suggestion by the Henry Tax Review to tax labour rather than capital because of labour's *immobility* is only true if workers were not to move to other states or territories where wages are significantly higher.

6.5 Transition mechanisms quantified

As for transition mechanisms, LVT could remain exempt for principle residence homeowners who currently still pay a first mortgage on their homes for the duration of their mortgage or 15 years, whichever is first. There were 101,645 principal residences in 2009-10 in Tasmania. In 2011-12, 35.3% of the 70.6% of homeowners in Tasmania owned their homes outright without mortgages. By using those numbers it is fair to assume that about 50,000 principle households still hold mortgages, some have a couple of years left to pay mortgages while others closer to 30 years. In Tasmania there is about 15,000 properties sold a year, which is a turnover rate of about 14%. This means that within less than 15 years all properties in Tasmania would have in *concept* been sold and repurchased.

With this realisation it is fair to set an exemption timeframe of 15 years for principle residences who still pay mortgages. In other words, if LVT were to be introduced in 2020, then by 2035 it will be levied on all properties. Until then it will be levied on approximately 75% of all properties while increasing every year. As for asset-rich and income-poor households, they can be part of a reverse mortgage or home reversion products. Wherein asset-rich and income-poor households do not pay LVT until when they sell, decease, bequeath or gift the property. Then the accrued LVT owed will be detracted from the property value.

6.6 Community Land Trust quantified

As a pathway to home ownership, CLTs are in competition from FHOG, FHBB ($20,000), and the Tasmanian government's scheme, *HomeShare* ($56,540). According to the Tasmanian Government (2015c) factsheet on FHOG and FHBB, $83.465 million was paid for 7900 new homebuyers from July 2011 until May 2015. 367 HomeShare packages were purchased until May 2015 for a total of $17.9 million.[9] According to Shelter Tasmania (2014, p. 17), "*HomeShare and Streets Ahead schemes have facilitated the purchase of 1593 properties since 2001*"; this seems at odd with the numbers above.

The view of the, in the previous chapter, interviewed Tasmanian CHP is that CLTs are not *viable* in Tasmania due to *low* LV that cannot compete with HomeShare. This is different for the CHP sector in Melbourne where LVs are significant higher. Table 8 and 9 present data provided by Housing Tasmania of vacant land it owns. Only vacant lands which have a value of 50% and higher ($85,000), than the $56,540 contribution of HomeShare are considered in table 8, and where at least *five* blocks of land were available in each *municipality* in Tasmania for 2015. The minimum of five is based on Crabtree et al.'s (2013, p. 37) suggestion that a "*CLT needs members – ideally, a minimum of five*".

Table 8: Housing Tasmania vacant lands by municipality, >$85,000 & ≥5 blocks, 2015, Tasmania

Municipality	Blocks of Land (*No.*)	Land Value (*million*)
Brighton	17	$2.818
Clarence	38	$7.578
Glenorchy	18	$2.933
Kingborough	12	$3.760
Launceston	11	$2.670
Waratah-Wynyard	5	$1.413
Total	**101**	**$21.172**

Source: Numbers provided by Housing Tasmania; authors' own calculations.

As seen from table 8, there are six municipalities which have 5 blocks of vacant land or more with each block of land having a value of at least of $85,000. A total of 101 blocks of land are calculated for a total value of $21.172 million. In table 9 the same values as in table 8 are considered but with at least *four* blocks of land and according to *locality*. For localities four blocks are used and not five, because some localities might be bordering each other and grouped it can become five or more.

[9] Numbers provided by Housing Tasmania.

Table 9: Housing Tasmania vacant lands by locality, >$85,000 & ≥4 blocks, 2015, Tasmania

Locality	Block of Land (*No.*)	Land Value (*million*)
Bridgewater	12	$2.115
Chigwell	9	$1.243
Clarendon Vale	25	$4.736
Huntingfield	5	$2.100
Margate	4	$0.978
New Norfolk	4	$0.724
Rocherlea	5	$0.810
Rokeby	4	$0.710
Somerset	4	$1.118
Total	**72**	**$14.534**

Source: Numbers provided by Housing Tasmania; authors' own calculations.

Table 9 shows eight localities that have at least four blocks of land for a value of $85,000 and more. There are 72 blocks of land for a total value of $14.534 million.

'*L*' did not know if they will charge *ground rent*, which does not allow calculating the *viability* of a CLT in Tasmania. The total LV intended for the CLT to be established upon is $300,000. This accounts for values of each non-serviced lot to be between $21,500 and $30,000, depending if there would eventually be 10 or 14 dwellings established. This is short of the $56,540 available from HomeShare which also does not have resale restrictions. The surrounding LVs are similar to the one identified by the potential CLT, this means that potential future CLT members would need to forego on possible future capital gains, in exchange for $21.500 to $30,000 LV.

By calculating the ratio of $30,000 LV to a dwelling for $120,000 and $30,000 servicing, it is a *ratio of dwelling price to land price* of *five*. According to Crabtree et al. (2013, pp. 163-164), it is considered *modest* to "*only reduce [land] costs by about $50-$70,000 […]. Against this reasonably modest cost savings, the Resident would incur some restrictions on their ownership rights*." The ratio of dwelling price to land price should be "*substantially higher (say $100,000 per unit)*" (Crabtree et al., 2013, p. 164).

The idea to establish a CLT which might not be more affordable than surrounding LVs now, but will be so in 10-15 years' time is in line with what '*R*' said; that *forth 20 years* affordable housing will only be found even further away from urban areas. '*L*''s decision not to apply low-income restriction, unlike HomeShare, can avoid possible future *residualisation* of low-income households. '*J*''s report that the SHA in Melbourne is willing to grand properties for the establishment of a CLT suggests that SHAs, in Victoria and Tasmania, are willing to consider CLTs. If ‘*J*’ will succeed establishing a CLT, it will be the first CHP forming a CLT in Australia.

7 Conclusion and Discussion

The crucial element of this thesis is to clarify the different *values* of land. It has become abundantly clear that the current social construct with regards to owning land cannot be upheld. A number of ancient Greeks held the cosmos to be composed of physical atoms (a-tomos) which are further indivisible (uncuttable) (Berryman, 2011). They could not have known that 2500 years later atoms would become divisible into subatomic particles. To try and hold on to the belief that land is indivisible is like resisting facts and prohibiting reality to occur, in other words, the Middle Ages all over again.

Land Value Tax is being accused by many for being socialistic on the one hand, and by Karl Marx himself as "*a last attempt to save the capitalistic regime*" (Diskin et al., 1992, p. 93). Milton Friedman (1962) is considered to be among the founders of neoliberalism and known for his stark support of *Capitalism and Freedom*. Friedman did think that Land Value Tax is the least bad tax and does not contradict with *capitalism*, *freedom* or *neoliberalism*. Yet Land Value Tax is *misunderstood* and therefore *unpopular*.

The findings show that housing unaffordability is due to increase in unimproved land value. By levying Land Value Tax on unimproved land value, the market value of land will decrease and will make housing affordable. It has become clear in the findings that a *marginal incremented 2%* Land Value Tax in Tasmania for 2009-10 had a potential for $504.785 million. This can almost fully replace *payroll tax* ($257m), *conveyance (stamp) duty* ($213.2m) and *land tax* ($90m). The land values have increased since 2009-10 while the state revenues for the above mentioned taxes not, this potentially means that land value tax could entirely cover these state taxes. By replacing *payroll tax* and *conveyance duty* with Land Value Tax, Tasmania will become the *most competitive taxed* state or territory in Australia.

The current neoliberal political and economic climate values FHOG and FHBB even while being aware that the scheme is overtly condemned. These schemes serve as a stimulus to the economy by enabling individual households to purchase unaffordable homes. Yet, these households then sell their homes and make capital gains on the unimproved land value; while both capital gains and unimproved land value are not taxed for principal residence in Australia. At the same time, this is exactly what is causing unaffordability in Tasmania; the next low-income household cannot buy a home because of the capital gains on unimproved land values accrued by the previous low-income household. FHOG and FHBB with

HomeShare unintentionally cause unaffordability which then necessitates perpetual subsidies for the next low-income households.

Funds for FHOG, FHBB and HomeShare can therefore best be redirected into creating perpetual *affordable housing* instead of perpetual funding *households* to purchase unaffordable housing. This crucial difference is paramount to understand how to solve unaffordability in Tasmania. This is possible if individual homes will be dissociated from common land, Community Land Trusts offer this capacity. Therefore, the potential contributions which are paid to individual households, $86,540 from FHOG, FHBB and HomeShare, can best be redirected into common land which would be in trust of Community Land Trusts. If the applied funds of over $100 million would have been used to purchase or grant the equivalent in value of land for common lands, then there would have been a potential for 2000 affordable housing which were still affordable to this day. There is a famous Chinese saying which goes: 'When is the best day to plant an olive tree? 20 years ago. And when is the second best day? Today!'

Community Land Trusts can be temporarily established with funds redirected from FHOG, FHBB and HomeShare within urban areas with medium to high land values. This can be in anticipation of Land Value Tax which will treat all of Tasmanian land similar to a Community Land Trust by applying tax on unimproved land values. Land Value Tax will lower the *market value* of land and create affordable housing. When Land Value Tax is implemented, the temporarily established Community Land Trusts could be sold and *reabsorbed* within the greater scheme of Land Value Tax. Community Land Trusts will be sustainable because they could charge 2% ground rent as is currently done in the ACT for low-income households on the ACT land. The ACT is currently the most affordable territory or state in Australia, the applied Land Rent Scheme might be part of the reason.

The limitations and future research possible after this thesis are the following. Land Value Tax was calculated on *aggregated* values instead of *per-square-metre* values, this should be undertaken in future research. Also, reverse mortgage and home reversion products where not researched to apply in Tasmania; and elaborate transition mechanisms specifically for Tasmania have not been fully researched, these should be further elaborated in future research. Then the potential vacant blocks of land from Housing Tasmania have not been researched for their suitability to form Community Land Trusts, this can also form future research. Finally, the decrease in market value of land has not been researched specifically for Tasmania, this should also be researched in the future.

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‘*J*’, Senior Manager, Community Housing Provider Melbourne, 14 April, Phone.

‘*L*’, Stakeholder, Community Land Trust, 16 April, Hobart.

‘*R*’, Senior Manager, Housing Tasmania, 22 April, Hobart.

‘*C*’, Senior Manager, Community Housing Provider Tasmania, 24 April, Phone.

‘*U*’, Senior Manager, Valuer-General Office, 12 May, Hobart.

‘*E*’, Manager, Valuer-General Office, 12 May, Hobart.

Appendix 1

Annex C2: Relationship between the rate of tax on land and a tax on economic rent

The economics of land tax can be analysed using a relatively simple model (adapted from Oates and Schwab 2009).

Assume that the value of land (L) depends on the rental income (r) and an interest rate (ρ) over n years, so that:

(1) $$L = \frac{r}{(1+\rho)} + \frac{r}{(1+\rho)^2} + \frac{r}{(1+\rho)^3} + \ldots \frac{r}{(1+\rho)^n}$$

(2) $$= \sum_{t=1}^{n} \frac{r}{(1+\rho)^t}$$

Since land does not depreciate with time, it is reasonable to assume that the value depends on the cash flows into infinity so that:

(3) $$L = \frac{r}{\rho}$$

This means that when market interest rates are at 5 per cent, land that returns a rental income of $30,000 will sell at $600,000 in the market. Now assume that a tax on land value (t_L) is introduced and because it is broad (and land is in fixed supply), there is no way for the landowner to pass it onto the tenant. The annual rental income to the owner (r) is reduced by ($r - t_L L$). Substituting this into (3) we find:

(4) $$L = \frac{r}{\rho + t_L}$$

The market value of land has been reduced. For example, a land tax rate of 1 per cent would see the value of land fall to $500,000; that is, equivalent to the present discounted value of the tax liability of $100,000. Any new buyer of the land will receive a rental income of $30,000, out of which a tax of $5,000 would be due. But because they only paid $500,000, they still earn an post- tax return equivalent to the market return of 5 per cent (that is $25,000). The purchaser is effectively compensated for the tax payments by the fall in the price of land.

This model allows the rate of a land value tax (t_L) to be compared against an equivalent tax directly on economic rent (t_r). If the two revenues are equal, then $r\,t_r = L\,t_L$ and equation (4) implies:

(5) $$t_r = \frac{t_L}{t_L + \rho}$$

So at a 5 per cent interest rate, a 1 per cent land tax is equivalent to a 17 per cent tax on economic rent.

Source: Australia's Future Tax System, 2010b, p. 270.

Appendix 2

Box C2–5: Potential transition mechanisms for land used for owner-occupied housing[10]

A simple option for facilitating the introduction of land tax on owner-occupied housing would be to levy the tax only on land that had been acquired after a given date, while continuing the exemption for all land held before that time. However, this complete grandfathering approach retains the lock-in effect of stamp duty for existing owners — they would begin to pay land tax only if they move — and would also come at a significant revenue cost.

A more flexible way of managing the transition would be to give purchasers of owner-occupied housing a choice between paying stamp duty or paying land tax, while grandfathering existing landholders. Once a property became liable for land tax it would remain liable. Purchasers who intended to move again soon would probably choose to pay land tax while purchasers who intended to live in the house for many years would probably choose to pay stamp duty. This option would have advantages and disadvantages. It would give purchasers more options. Since home buyers could avoid paying stamp duty up-front, access to housing would be immediately improved. Existing concessions and exemptions from stamp duty could be retained. Where people opt to pay stamp duty, this would reduce the revenue shortfall from the transition to land tax. On the downside, the transition could be very protracted unless some end date were specified.

An alternative approach may involve providing a credit to be used against any future land tax liability. A credit could be based on previous stamp duty paid or on the land tax expected to be paid over a set period of ownership. A full credit could be provided to people who buy between the announcement and introduction of the tax, to prevent people deferring purchases to avoid the tax. The credit would offset their annual land tax liability until it was exhausted. A partial credit — possibly on a sliding scale based on years held — could be provided to people who had paid stamp duty in a specified period before the announcement. A sliding scale would reflect revenue considerations and the fact that the effective tax rate from stamp duty declines with length of holding period. Alternatively, a flat credit irrespective of the length of time owned or amount of previously paid stamp duty could be provided to all existing holders of land for owner-occupied housing. This approach would be simpler to

[10] Australia's Future Tax System, 2010b, p. 269.

administer and allow longer deferral of land tax liabilities for holders of lower value land. Compared to permanent grandfathering of existing landholders, the use of a credit scheme would bring owner-occupied housing into the tax base sooner and lead to smaller revenue shortfalls.

Finally, a phase-in arrangement could be adopted. For example, the level of stamp duty could annually step down by one-tenth of its current level and the level of land tax could step up by one-tenth of its ultimate level. Under this arrangement, for example, a house sold in the third year would pay 70 per cent of the full stamp duty on the transaction and 30 per cent of the assessed land tax each year for a specified period. This would result in some stamp duty collections occurring in the phase-in period, reducing the fiscal cost compared to complete grandfathering. Limiting the period over which discounted land tax applies, perhaps to 10 years, reflects the fact that the discount will have lock-in effects eventually. After this period, the percentage paid in land tax could gradually phase up to the full rate. Similarly, people who never transact could remain fully exempt for a period, say 15 years, with the tax then gradually phased in, in line with the time periods applied to others. This would provide a measured phase-in over a predictable period and would avoid sudden jumps in liability.