

Land tax on underutilised land on the cards again?

By Annelize Crosby and Thapelo Machaba

Recent cabinet decision to look at land tax again

In 2019 the Presidential Advisory Panel recommended that the Minister appoints a land tax inquiry to consider a national policy or regulations to the Municipal Property Rates Act of 2004. The recommendations were for the Minister to explore the possibility of imposing a tax on agricultural land that is unutilized/ underutilized, to encourage its productive use.

The suggestion to introduce a land tax was rejected by Cabinet and Minister Didiza in 2019. Hence, it came as a bit of a surprise then when the ANC decided its recent lekgotla that *“The process of equitable land redistribution should be accelerated together with supportive measures to assist in the success of black landowners involved in large-scale and small-scale farming activity. A balanced and effective land transformation process should be pursued **and land reform instruments should include a tax on underutilised land.**”*

This is not the first time that the levying of a land tax is mooted. The Katz Commission looked into a possible tax on agricultural land in the late 1990s. The commission decided not to recommend a national land tax in the short to medium term. The commission stated in their report that they believed that there is sufficient evidence to justify the possible implementation of a rural land tax at local government level, but that further investigation be undertaken to ascertain the merits of a local level land tax and to ensure that, if introduced, the implementation of such a tax should not have undesirable distorting effects.

The question of definitions

The land tax concept at this point is unclear and one can't help but ask the following questions:

- What is to be considered underutilised land and how will a land tax be incorporated into existing land reform strategies?
- Who will collect the taxes, and how will they be utilised? ,
- What will happen to underutilised land governed under customary laws?
- Will the tax be an addition to existing property rates taxes, and which sphere of government will collect those taxes?

Not to mention that most underutilised or unused land belong to the government in the form of communal land under customary laws and state land meant for black beneficiaries. There are land reform beneficiaries that reside on land that is not being productively used, often due to a lack of resources and access to financing. Will they now be subjected to paying land tax over and above paying for property taxes? And what about farmers using conservation agriculture that requires them to let the land lie fallow from time to time?

Economic implications of land tax

One must bear in mind that property tax is levied on owners of immovable property - all land (residential, commercial, industrial and agricultural), which means that a land tax will be an additional tax. From an administrative point of view, if a land tax is instituted, checks and balances will be required to ensure that the envisioned tax operates properly, to identify the party liable for the tax, the assessment of taxable value, the tax rate, as well as the appropriate exemptions, tax relief, administration, collection and enforcement. Without a clear direction of

how this land tax will be administrated it remains problematic simply because it adds a greater tax burden on South Africans.

Land tax will be imposed on both arable and barren land. Typically, barren land is not much in demand; this means that an owner of barren land will have to pay land taxes, although it might be impossible for them to sell such land.

The introduction of land tax might cause insolvency problems for some commercial farmers who may subsequently cause a decline in agricultural production and threaten food security in the country; the decline in production also affects South Africa's exporting, limiting our abilities to be competitive.

The idea that land tax would cause landowners to use the land productively or accelerate redistribution is unsubstantiated but what seems to be clear is that land taxation has the potential to affect the agricultural land market and will therefore also affect its collateral, finally land taxes might in the long-run affect future investments in primary agriculture, ultimately impacting on land improvements.

The country is already faced with high unemployment, and if farmers incur more tax burdens, then they might be forced to lay off more workers increasing unemployment, inequality and poverty; the government needs to understand the setbacks that this tax will bring forward.

Land tax will remain the same regardless of how much profit a farmer generates, even when returns are negative, the farmer still has to pay land taxes, and this will have a direct effect on production costs, eventually pushing food prices up, and when such happens, unfortunately, the consumers will have to bear the brunt of higher food prices, leaving the poor more vulnerable.

Conclusion

The process of equitable land redistribution should indeed be accelerated in South Africa; however, the introduction of the land tax may lead to all sorts of unintended consequences. , Instead of addressing inequality and promoting productivity on farms, a land tax may well negatively impact land reform beneficiaries and food security.