

Solid ground:

Adopting land value taxation in Vanuatu

Based on an essay by Terence Dwyer



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PROFESSIONAL
ACCOUNTANTS
& BUSINESS
ADVISORS

Part 1

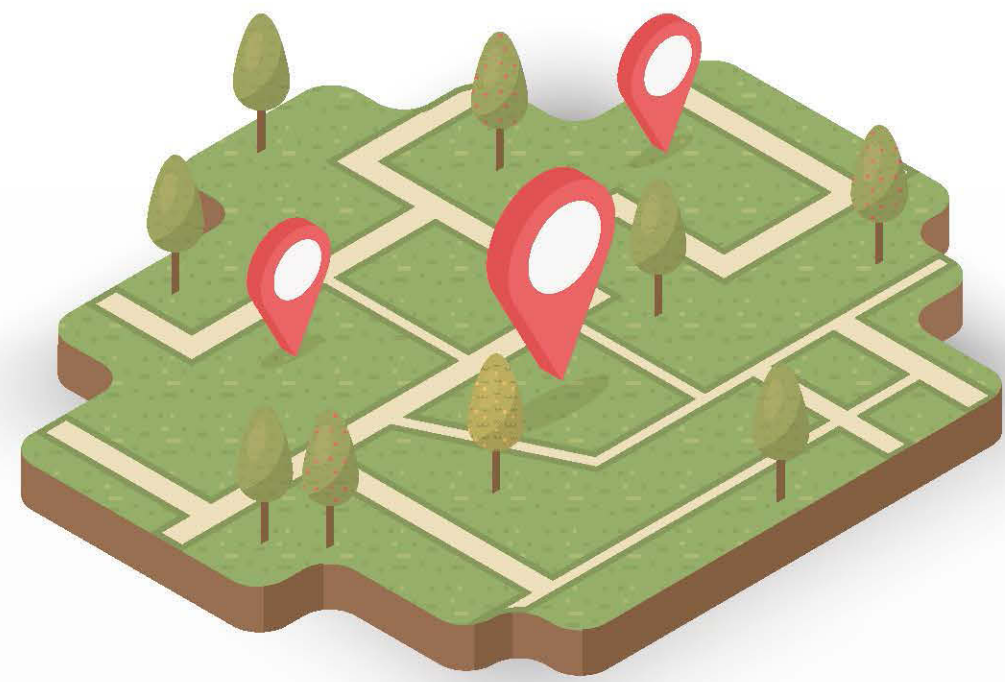
Some principles of tax policy

(Very quick. We promise.)



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There are **three** factors of production



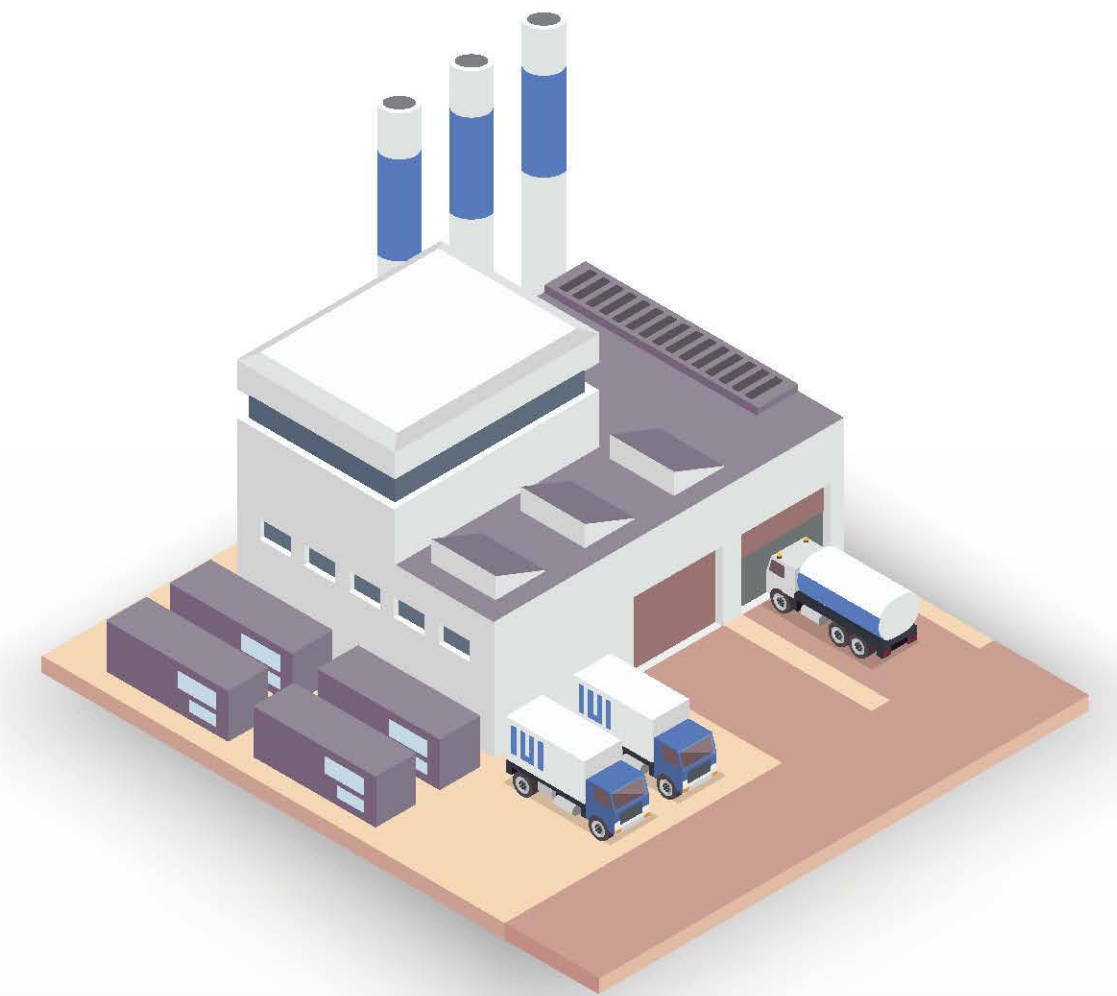
LAND

ARABLE LANDS
MINERAL RIGHTS
FISHING RIGHTS
RADIO WAVES
...



LABOUR

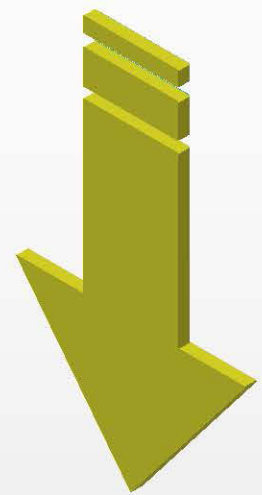
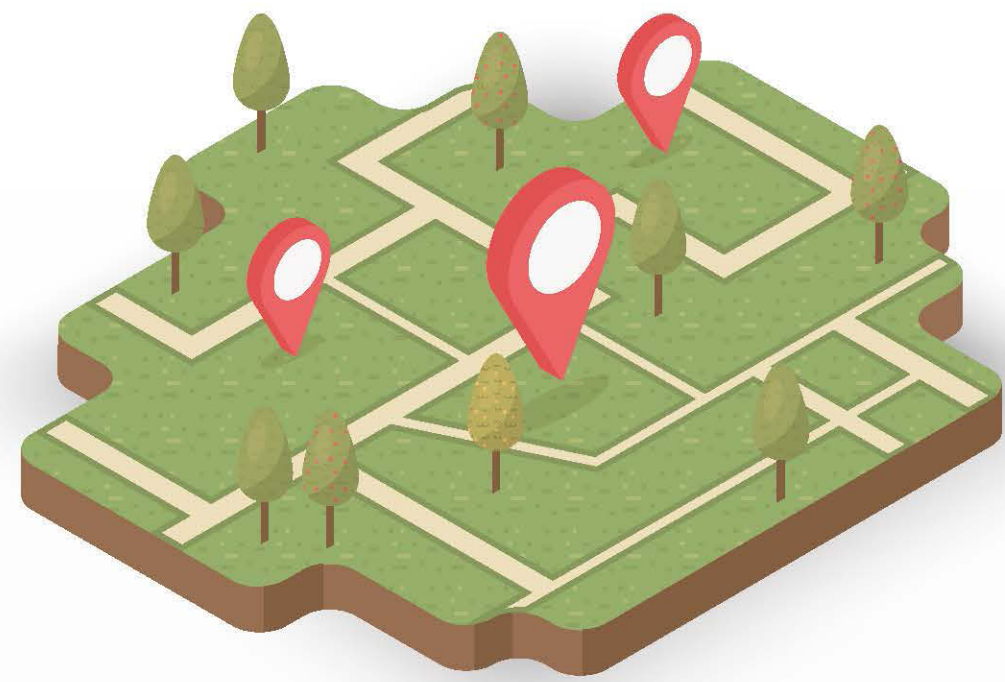
PHYSICAL
MENTAL
SKILLED
UNSKILLED
...



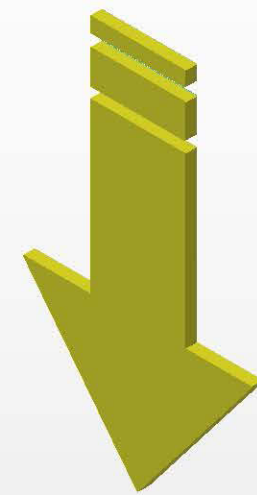
CAPITAL

TOOLS OF PRODUCTION
EQUIPMENT
MACHINERY
FACILITIES
...

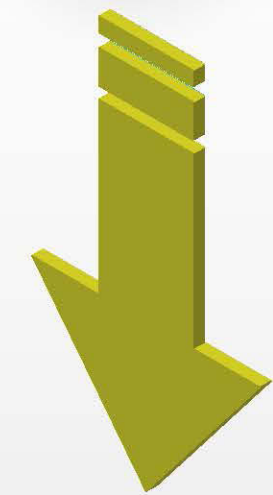
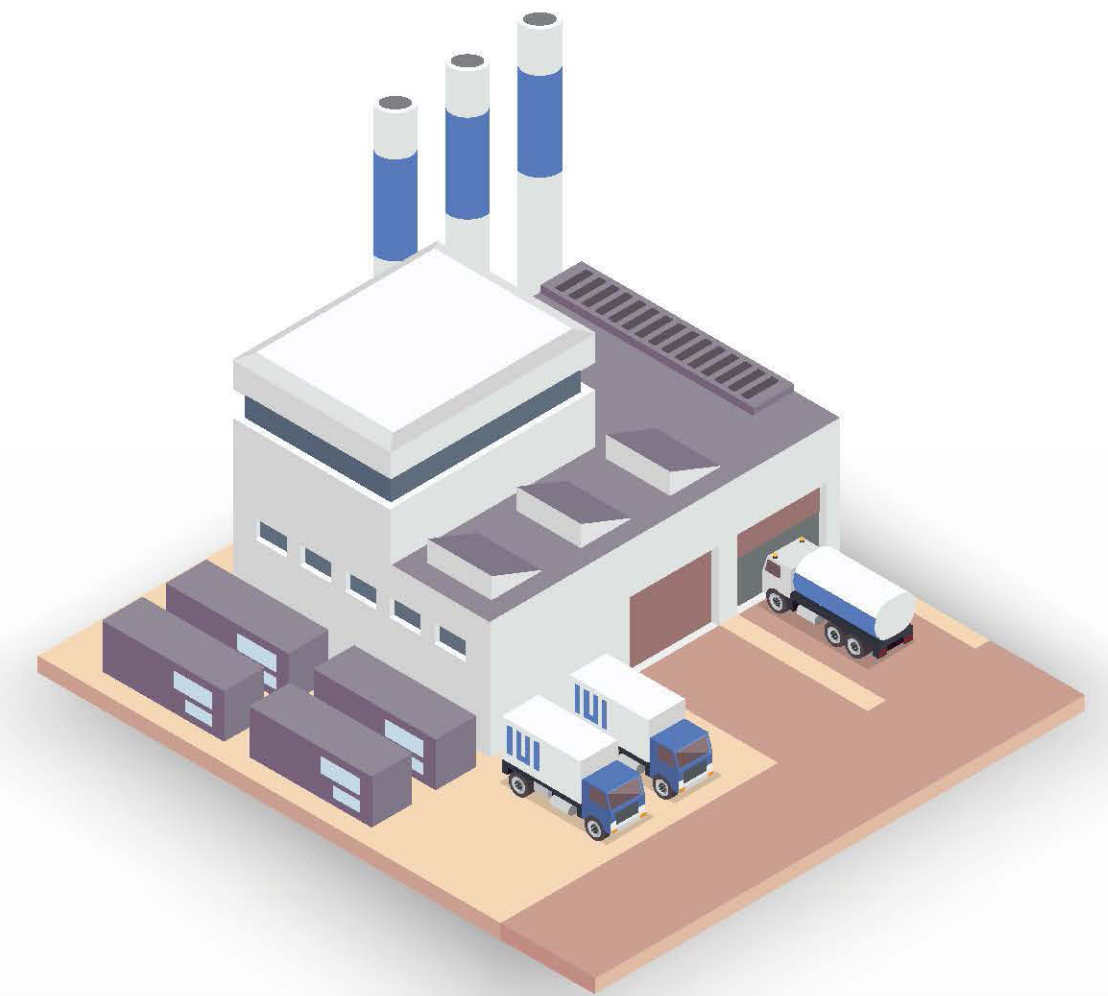
They produce **three** types of returns



RENT

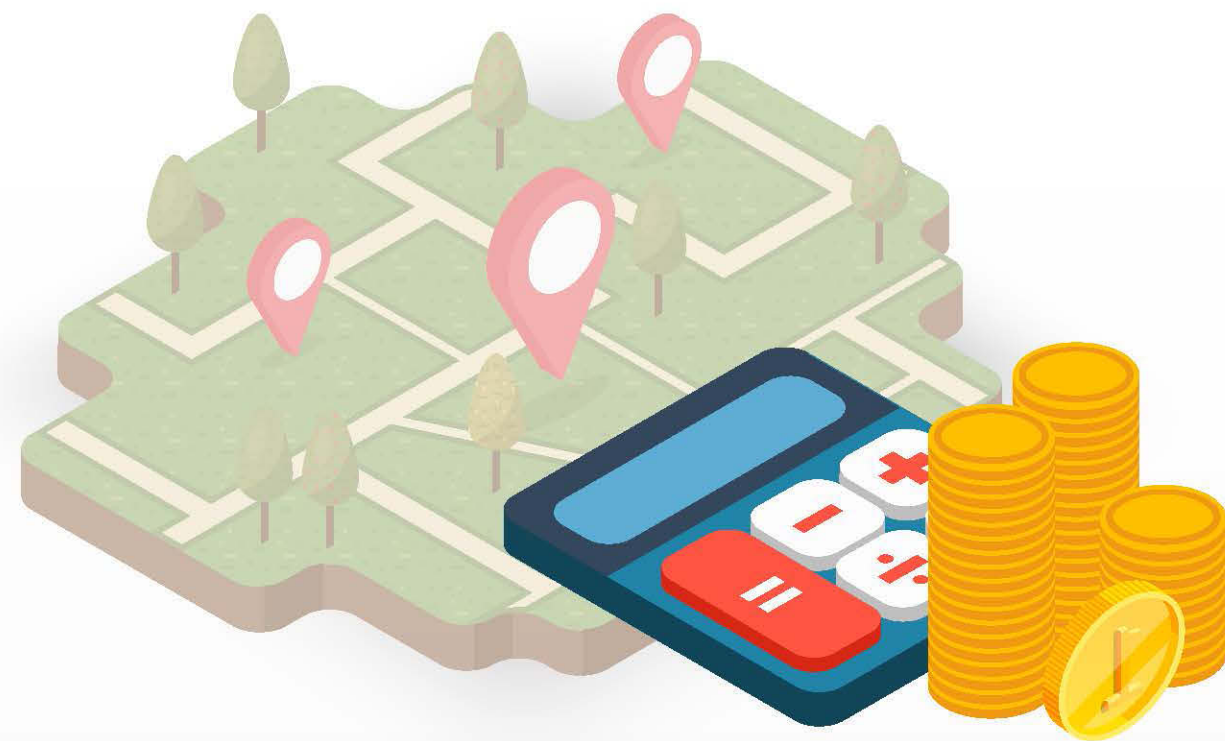


WAGES



PROFIT

Only these can be taxed for **revenue**



RENT

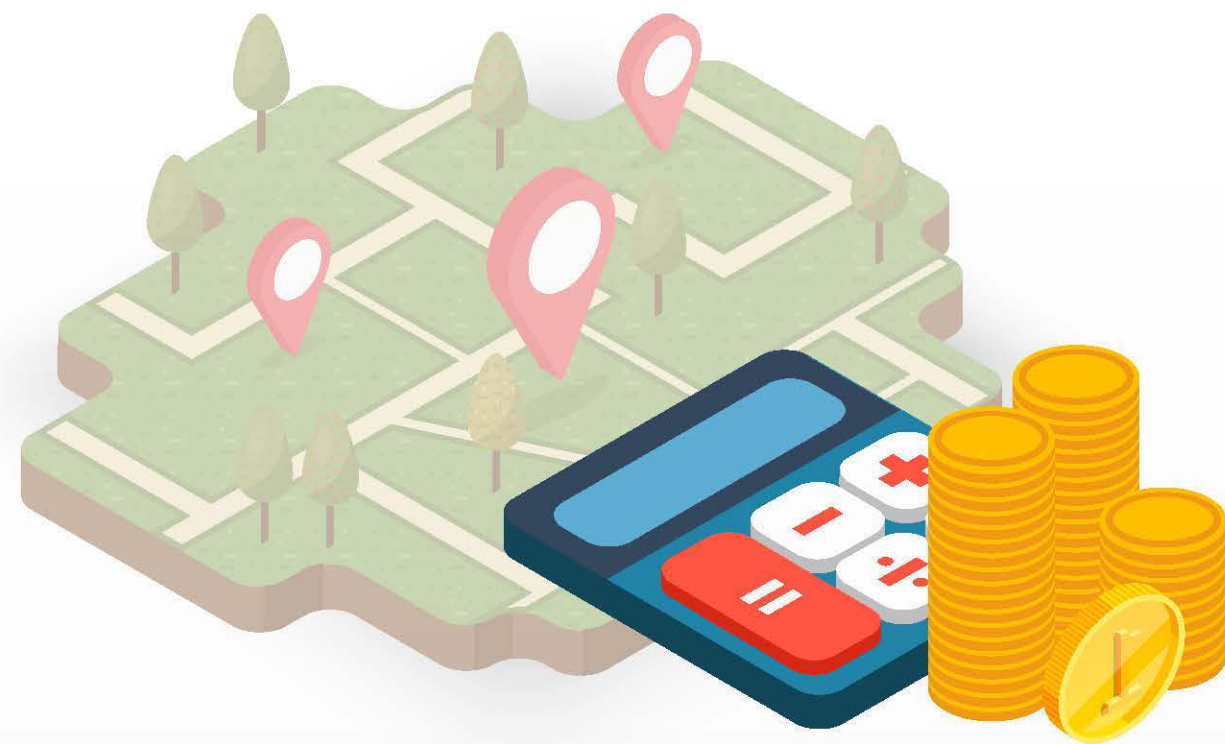


WAGES



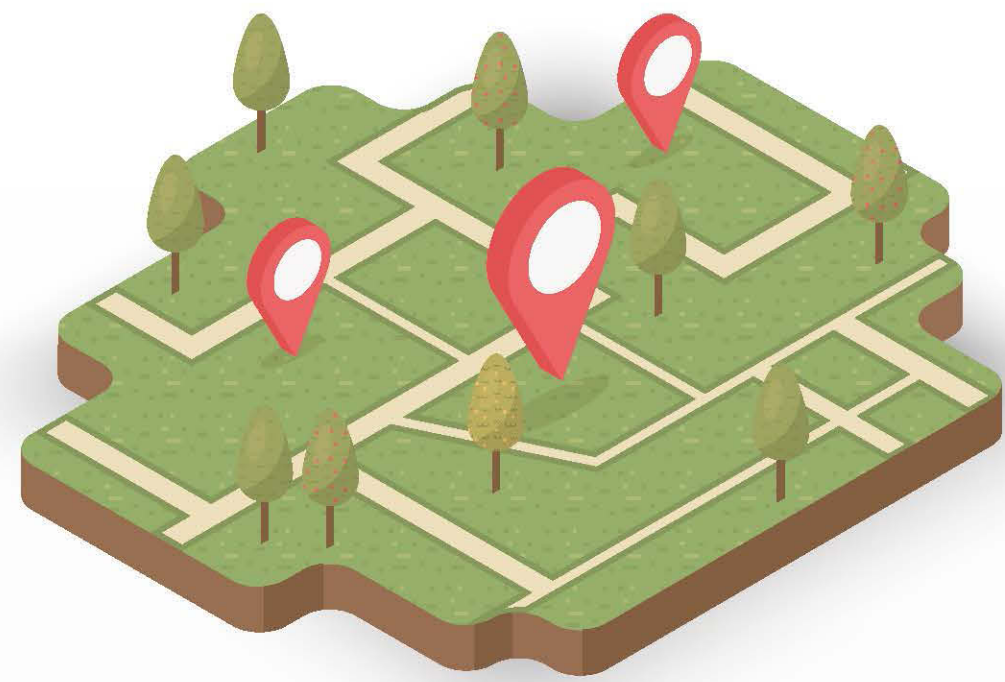
PROFIT

Taxation involves all **three** factors



“An income tax is just three taxes rolled into one”

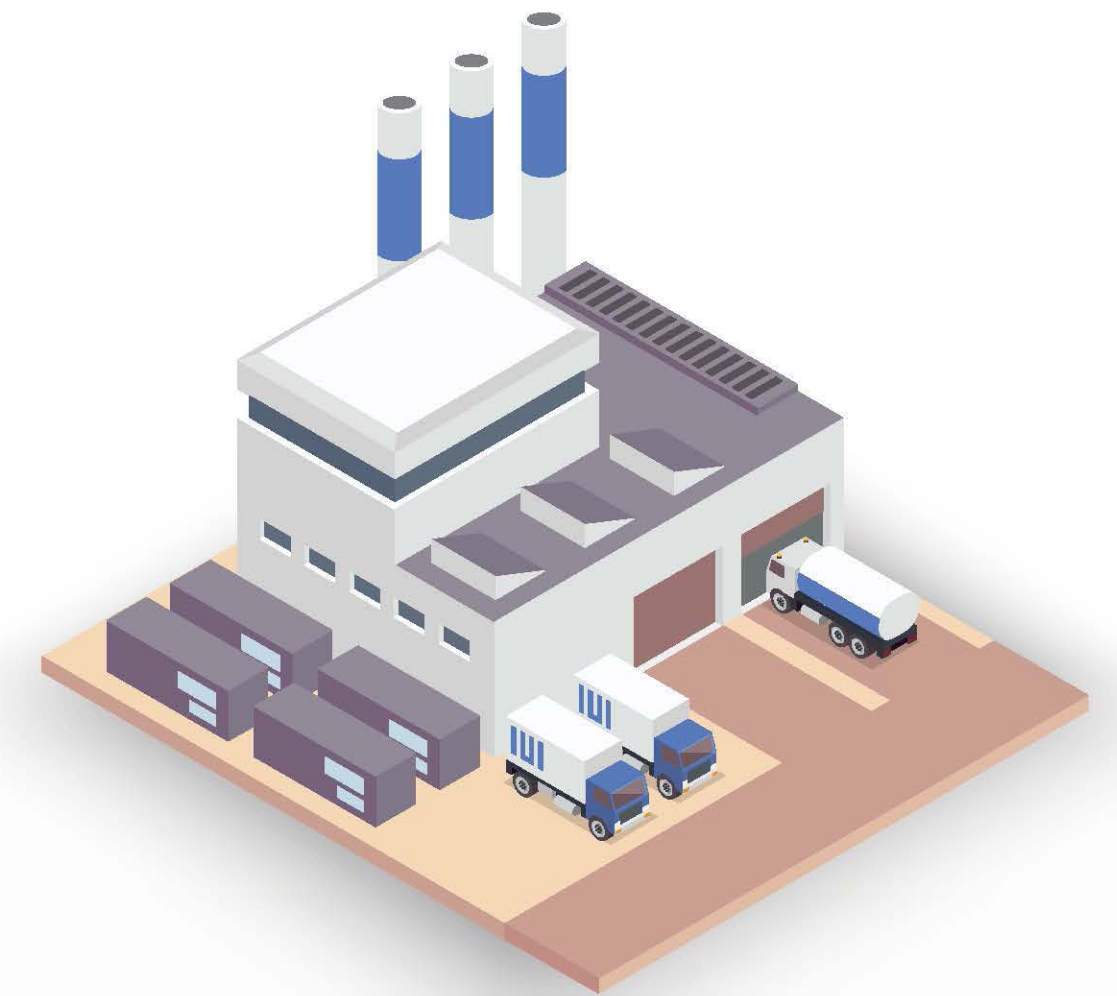
By **nature**, they react differently



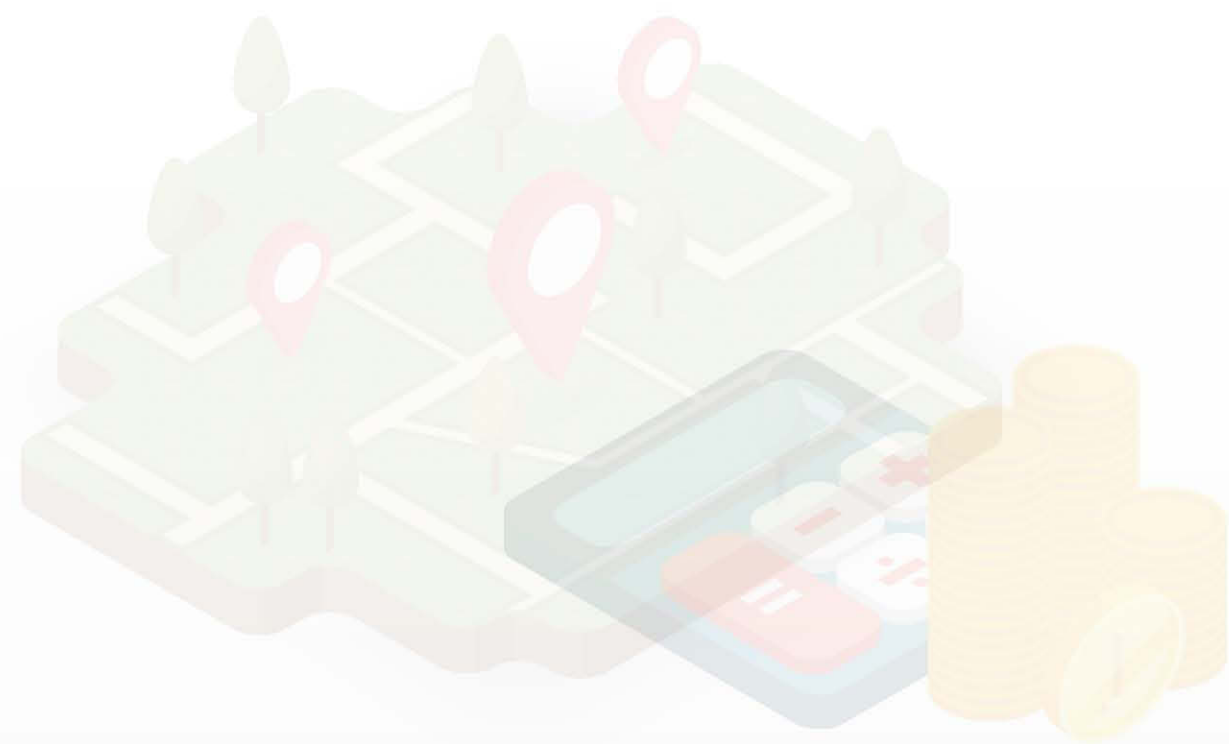
Independent of our will



Put in production only by voluntary action



Two of them readjust their behaviour



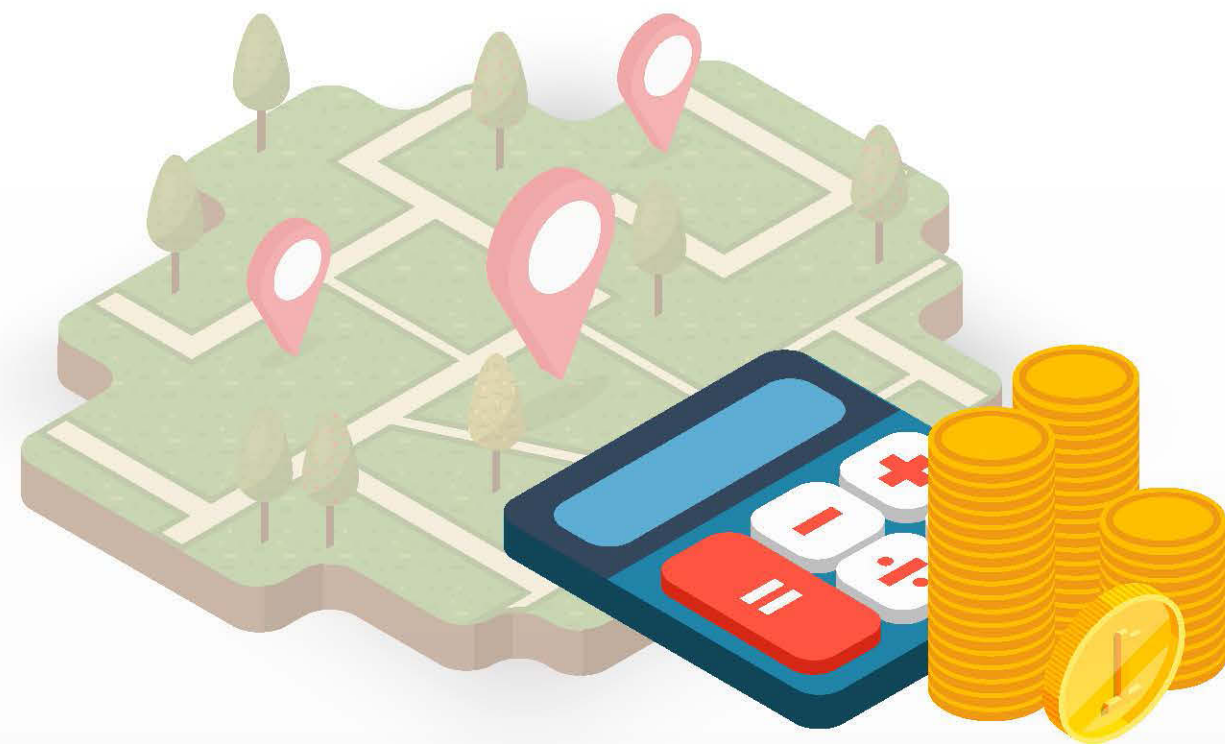
➡ Reduction of supply

➡ Tax shifting

➡ Tax avoidance

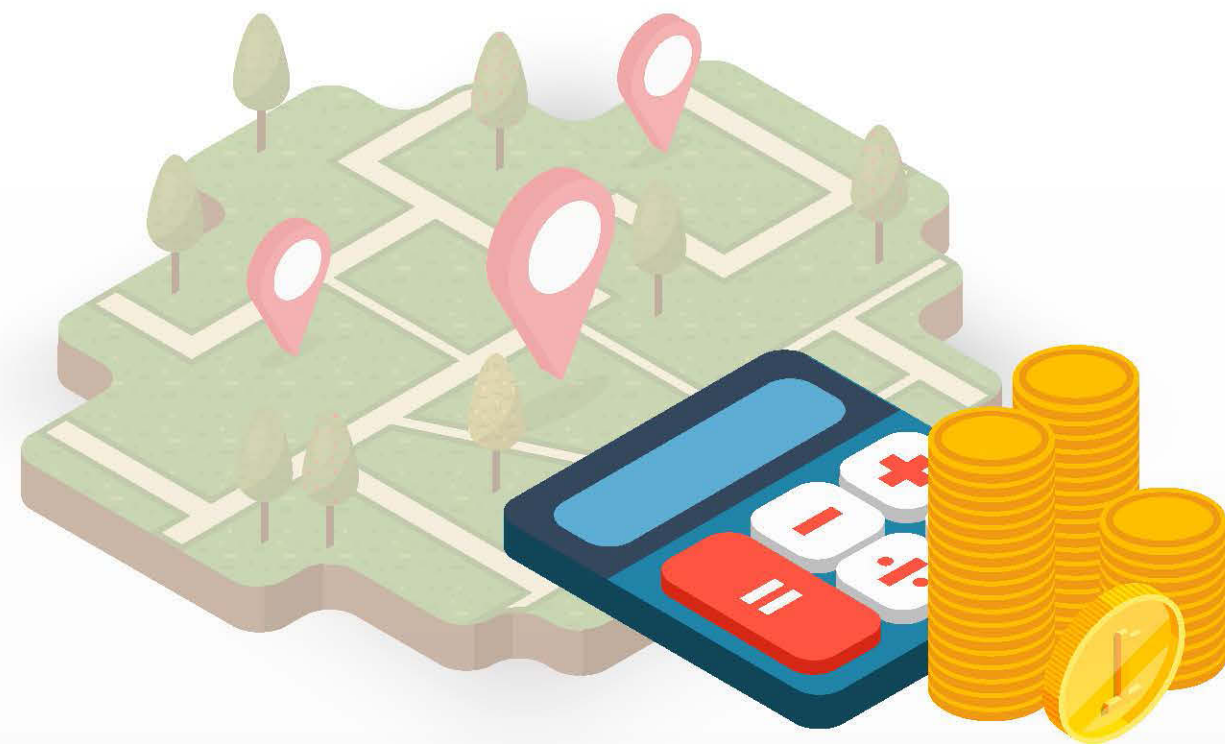
➡ Tax evasion

Only **one** stays put



- ➡ Fixed supply
- ➡ Cannot shift tax
- ➡ Cannot avoid tax
- ➡ Cannot be hidden

A tax on land brings **optimal** revenue



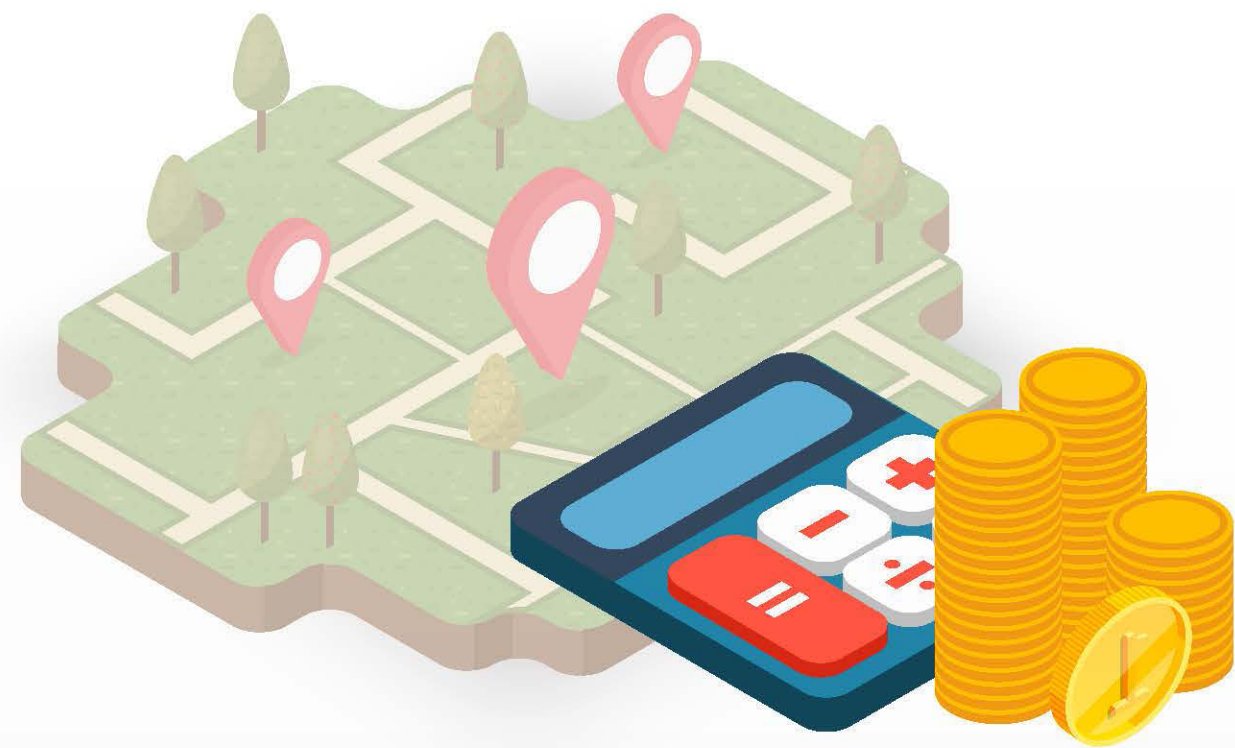
NEUTRAL
EFFECT



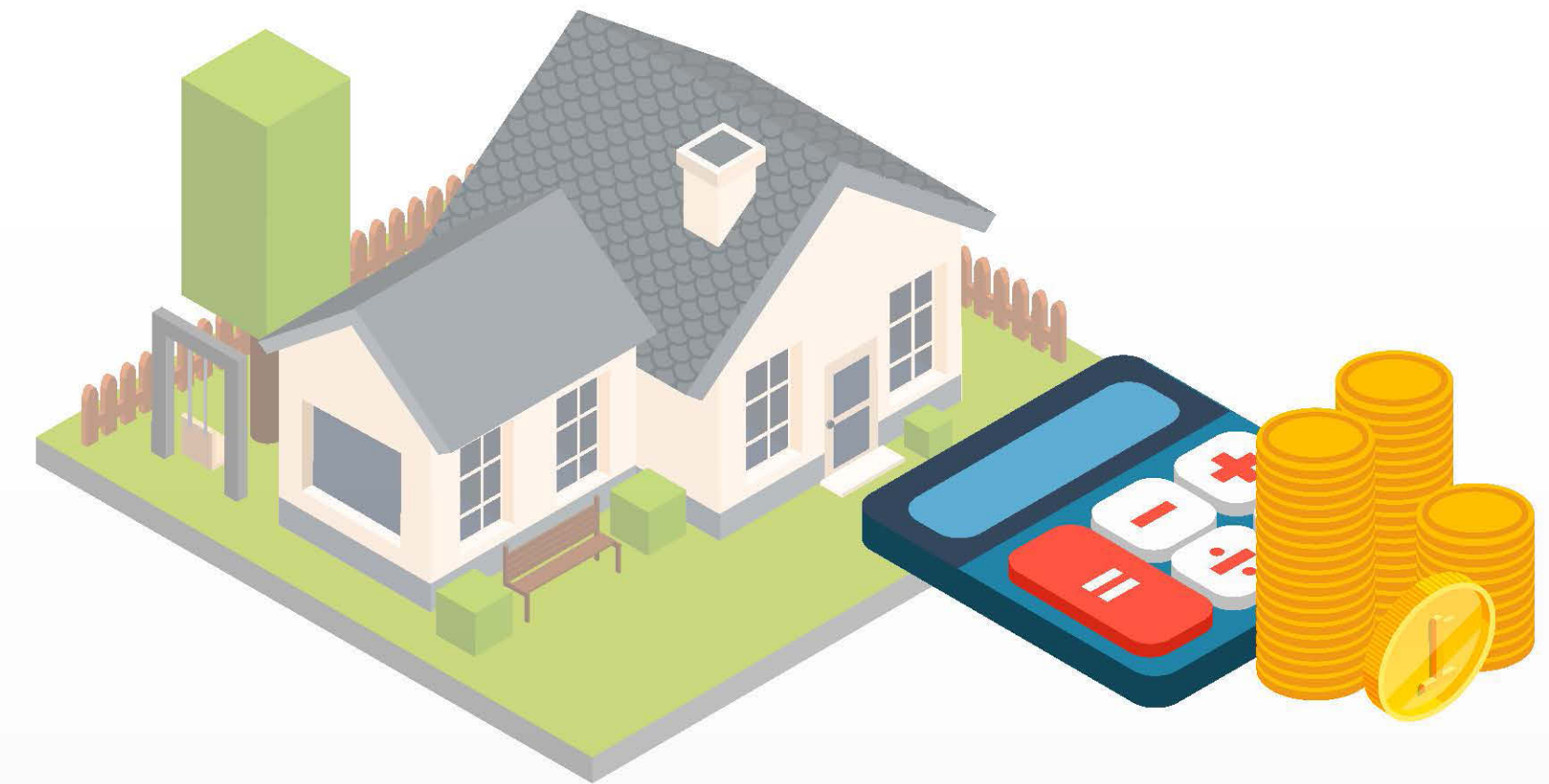
ECONOMIC
DAMAGE



Let's call it a “land value **rate**”



≠



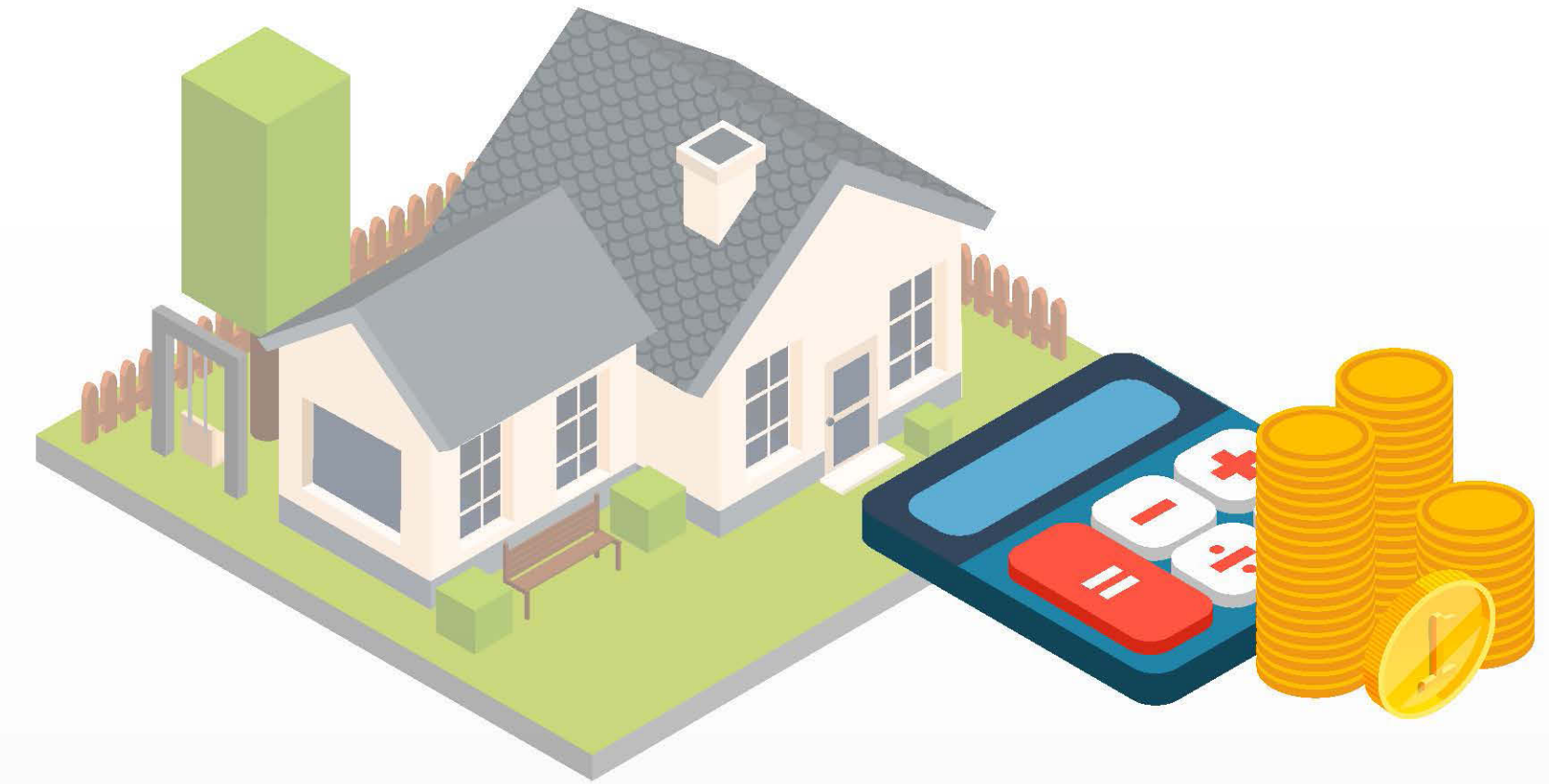
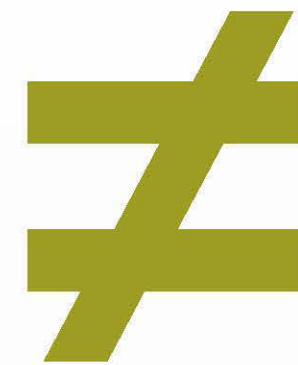
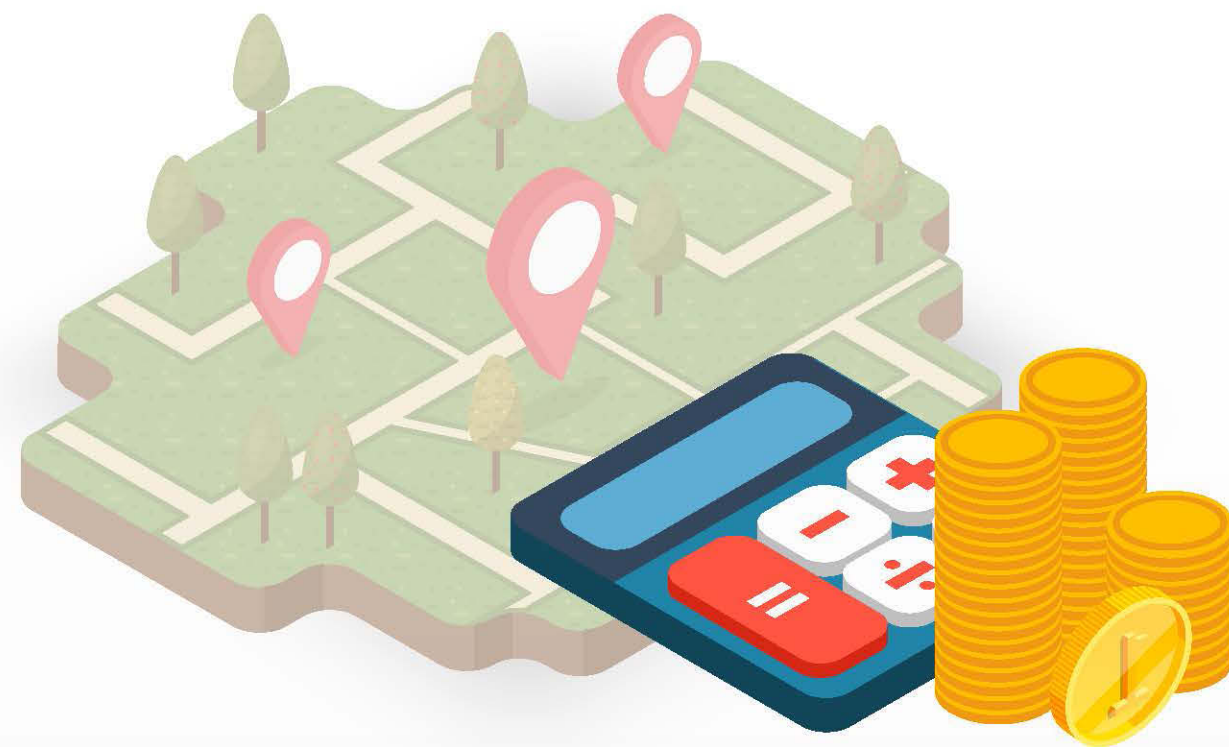
Land value rate

Portion of the land value alone

Property tax

Portion of the land value,
and of buildings, improvements,
crops, livestock...

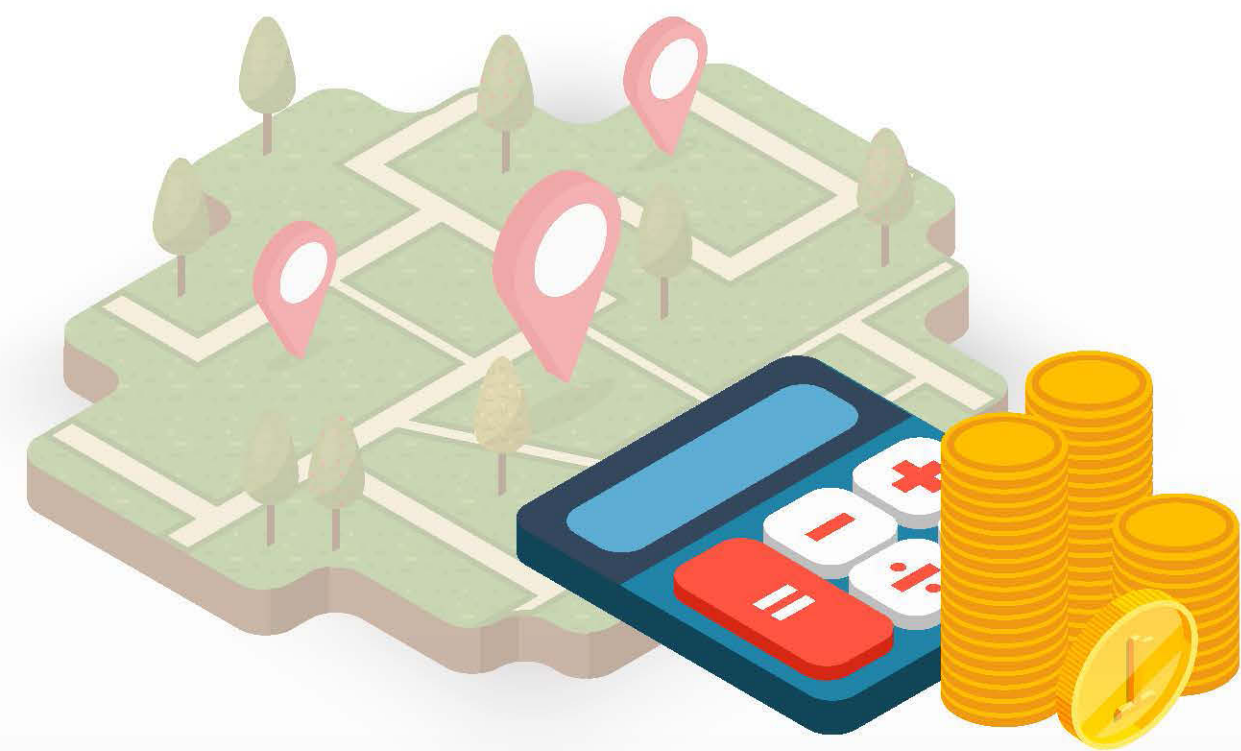
Incentivize **production**, not speculation



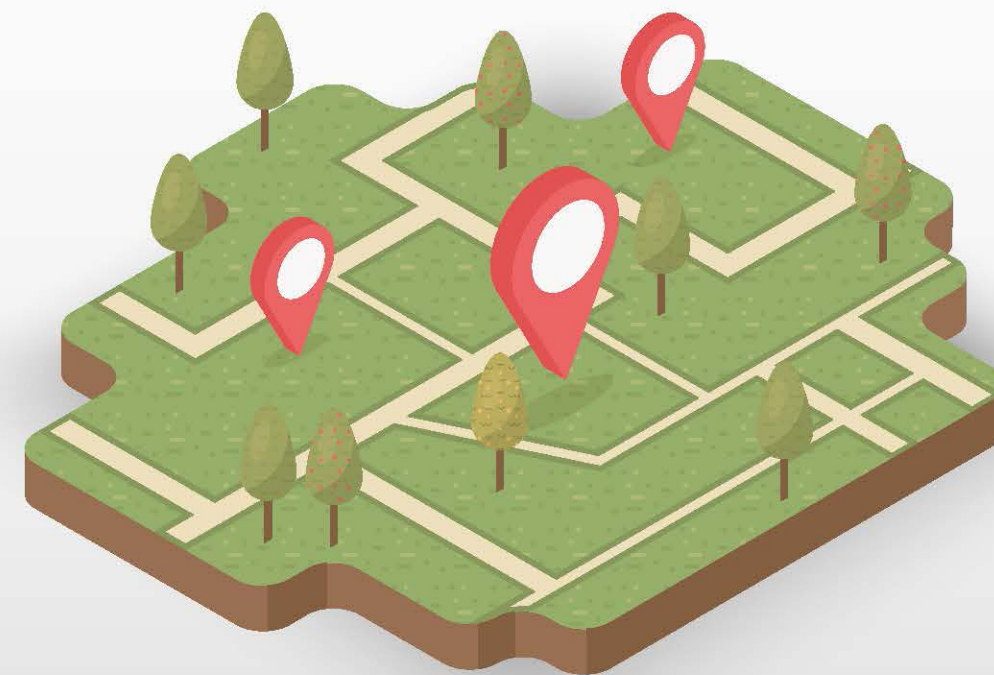
- ➡ Collected from **landholders**
- ➡ Determined by demand only
- ➡ Less burden if land is put to good use

- ➡ Collected from **landlords**
- ➡ Determined by demand + condition
- ➡ Less burden if land is left unused

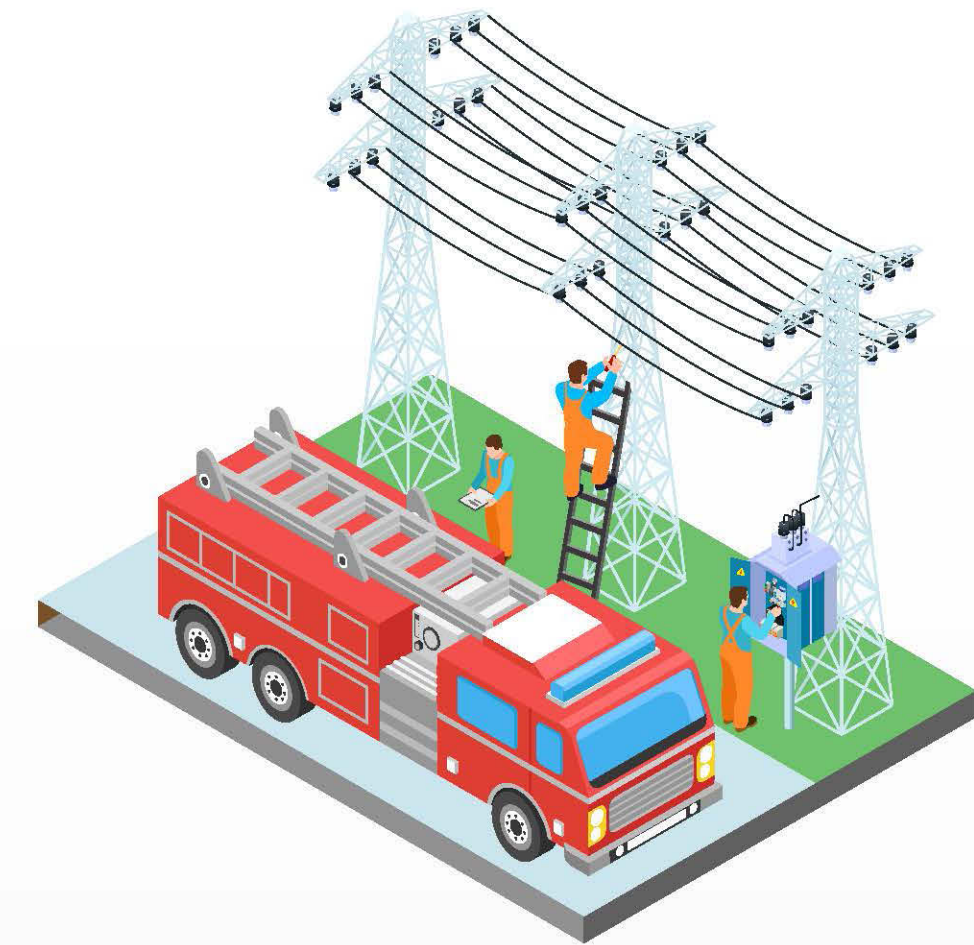
A **virtuous** cycle of value addition



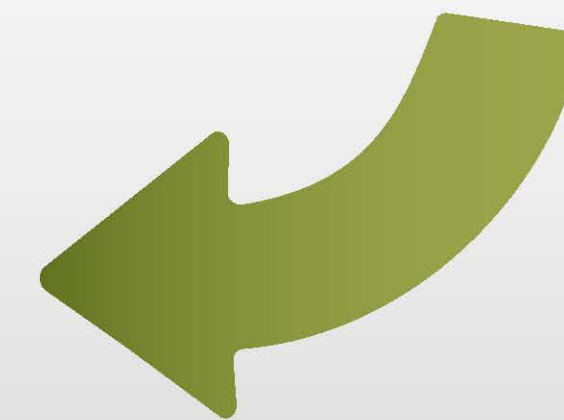
Land value rate



Land value



Public expenditure



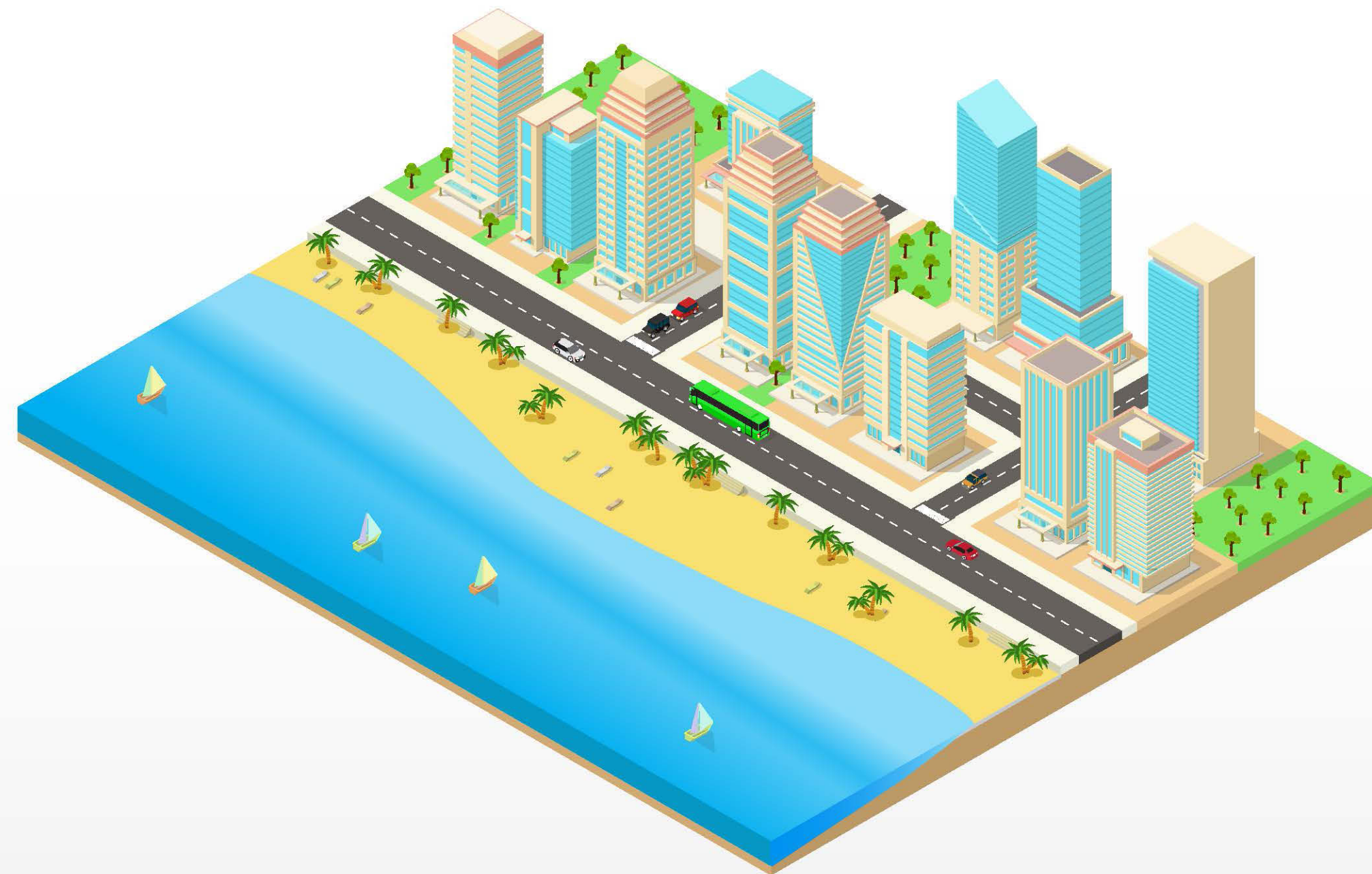
Part 2

Application to Vanuatu



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Two categories of land in Vanuatu

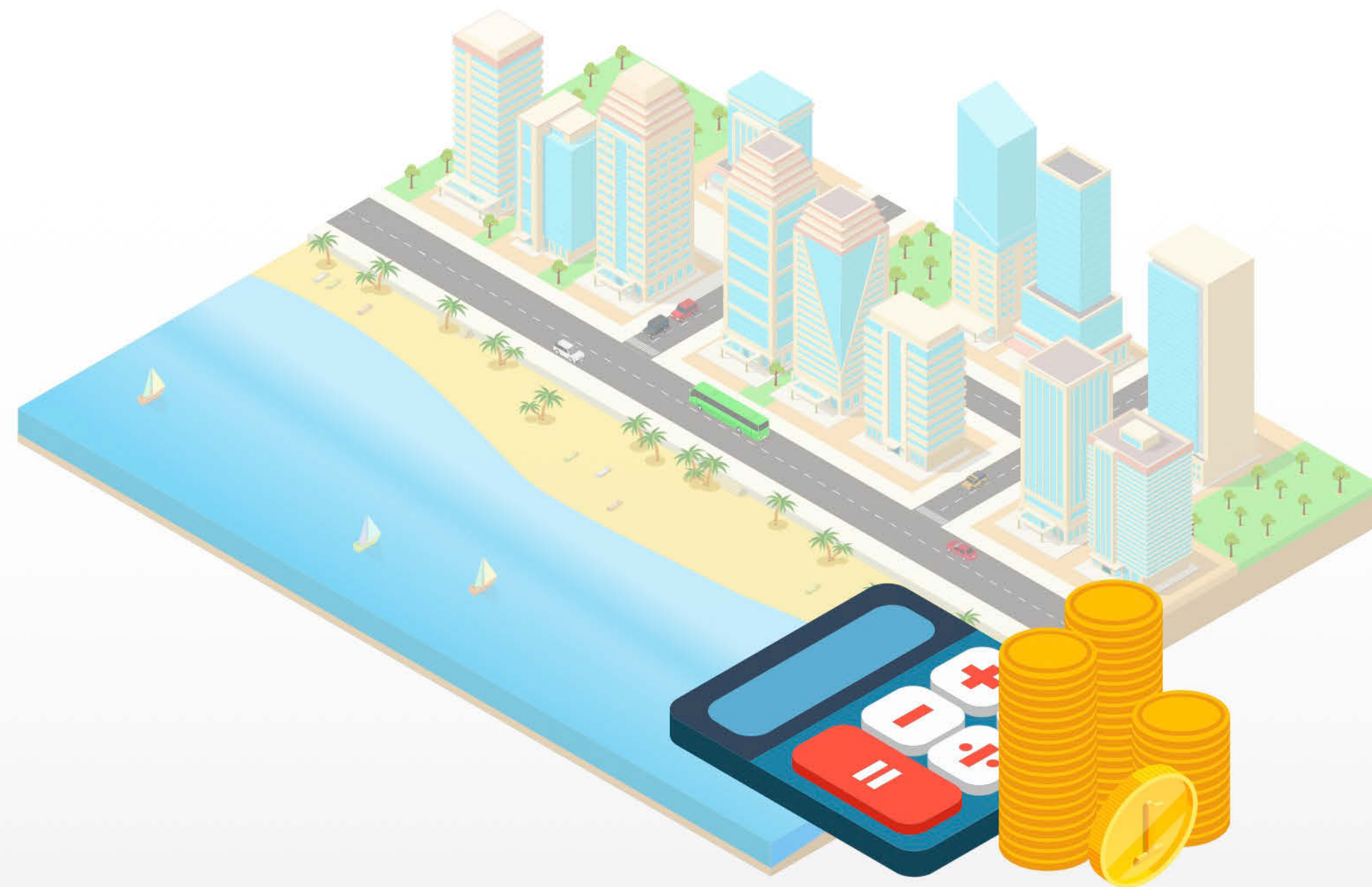


Alienated/
Commercial



Communal/
Customary

Fairness calls for **selective** collection

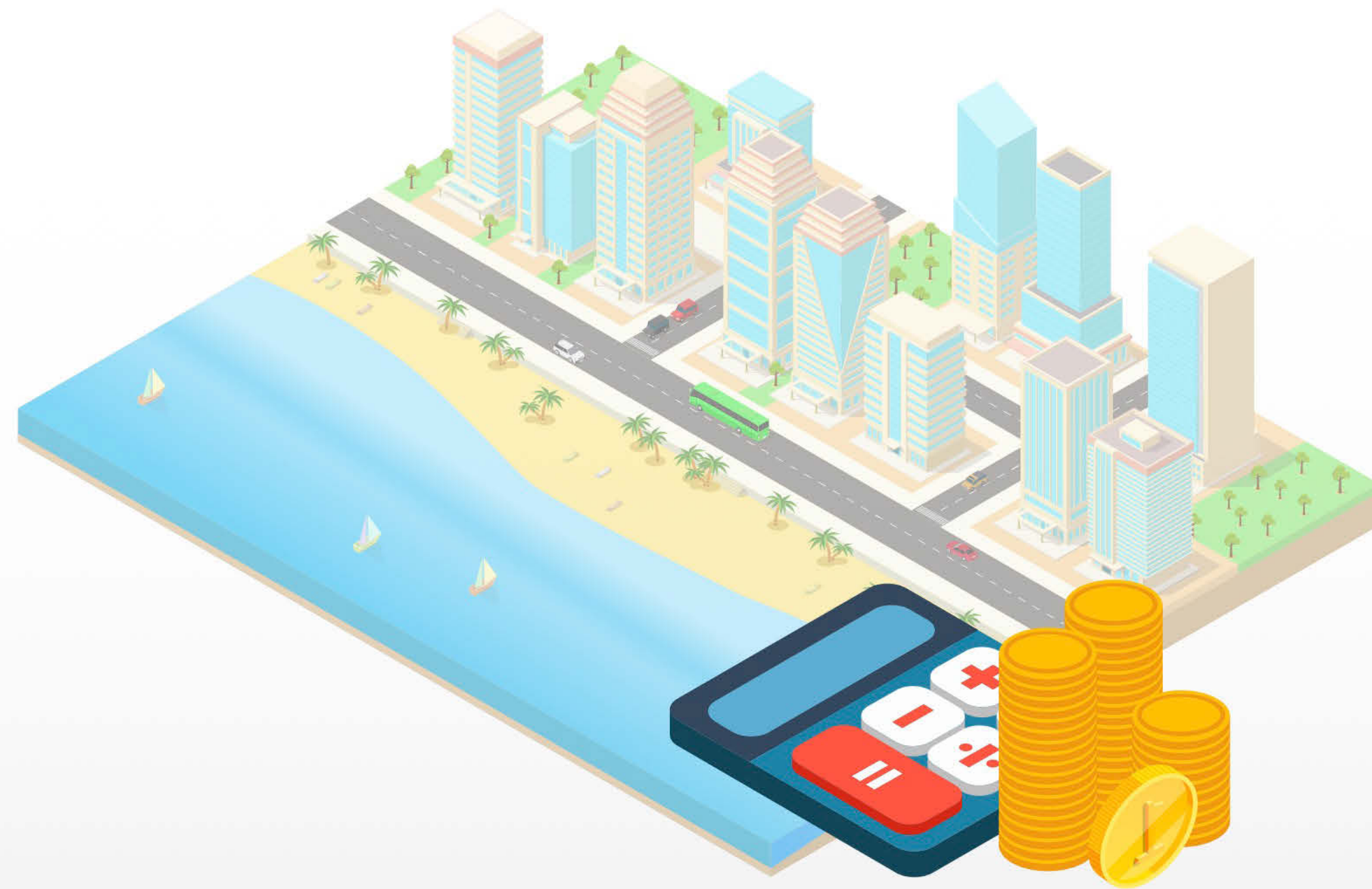


- ➔ Exclusive use by landholders
- ➔ Urban/Industrial/Commercial
- ➔ Encourages productive use



- ➔ Traditional/Communal use by everyone
- ➔ Subsistence agriculture/Fishing
- ➔ Prevents exodus to urban slums

Benefits for **all** Ni-Vanuatu

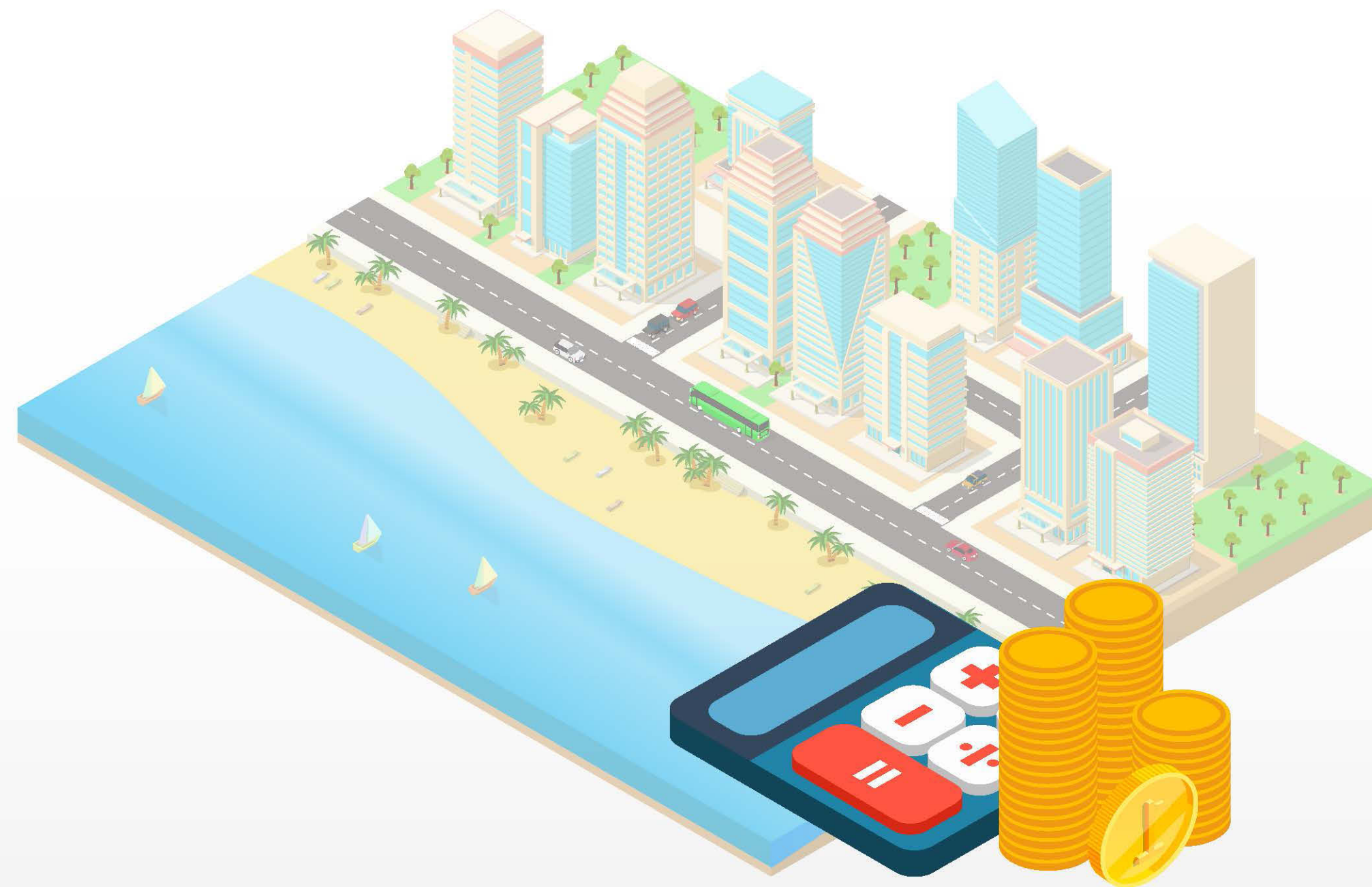


INCENTIVE FOR
DEVELOPMENT



SOCIAL
SAFETY NET

Regulatory framework is **already** here

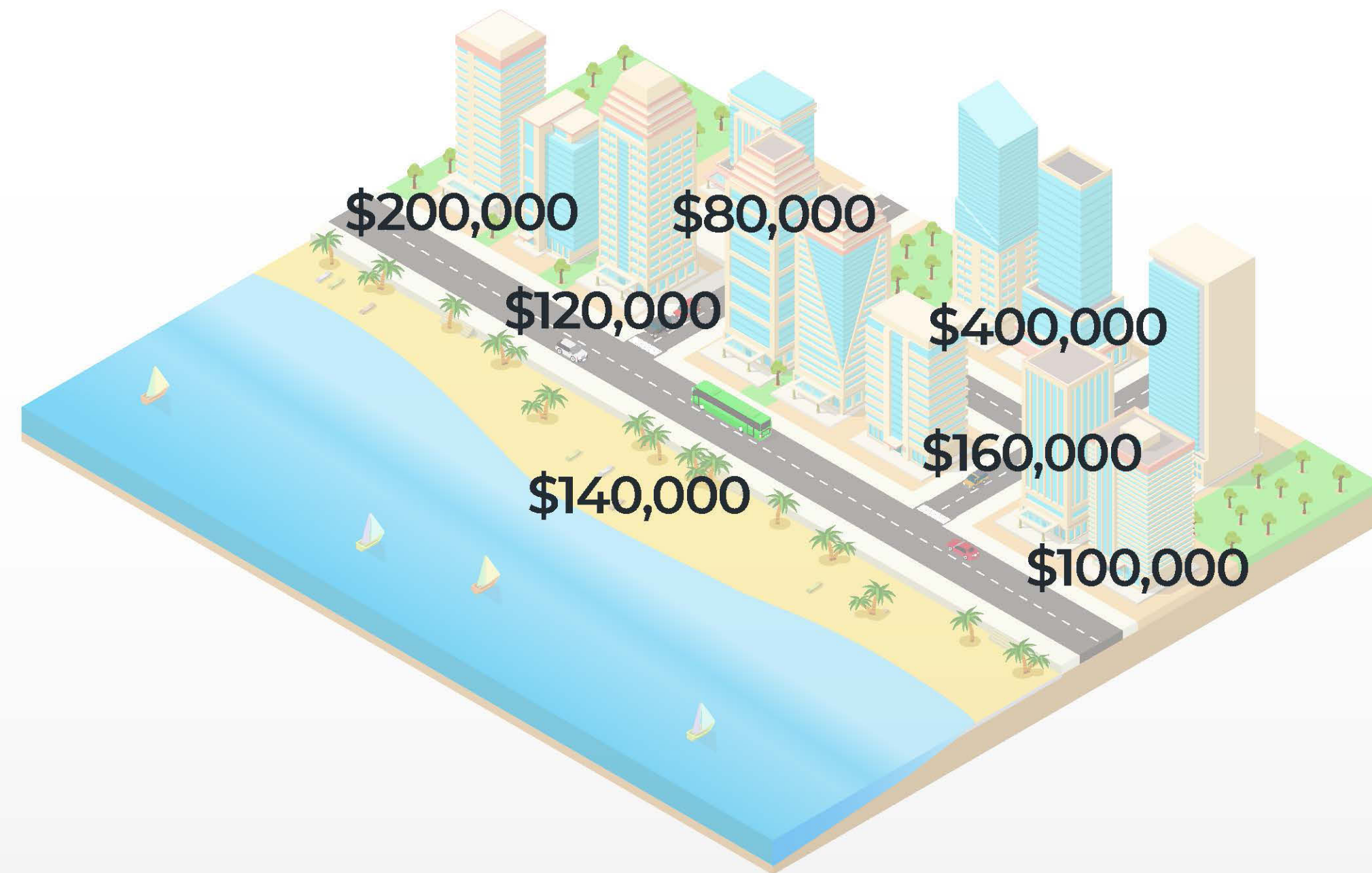


➔ Compatible with the Constitution

➔ Meets all Revenue Review
“guiding principles”

- Equity and fairness
- Certainty
- Economy of collection
- Simplicity
- Neutrality
- Economic growth and efficiency
- Transparency and visibility
- Minimum tax gap
- Appropriate government resources

Start with a land **valuation** system



Ignores all man-made structures/improvements

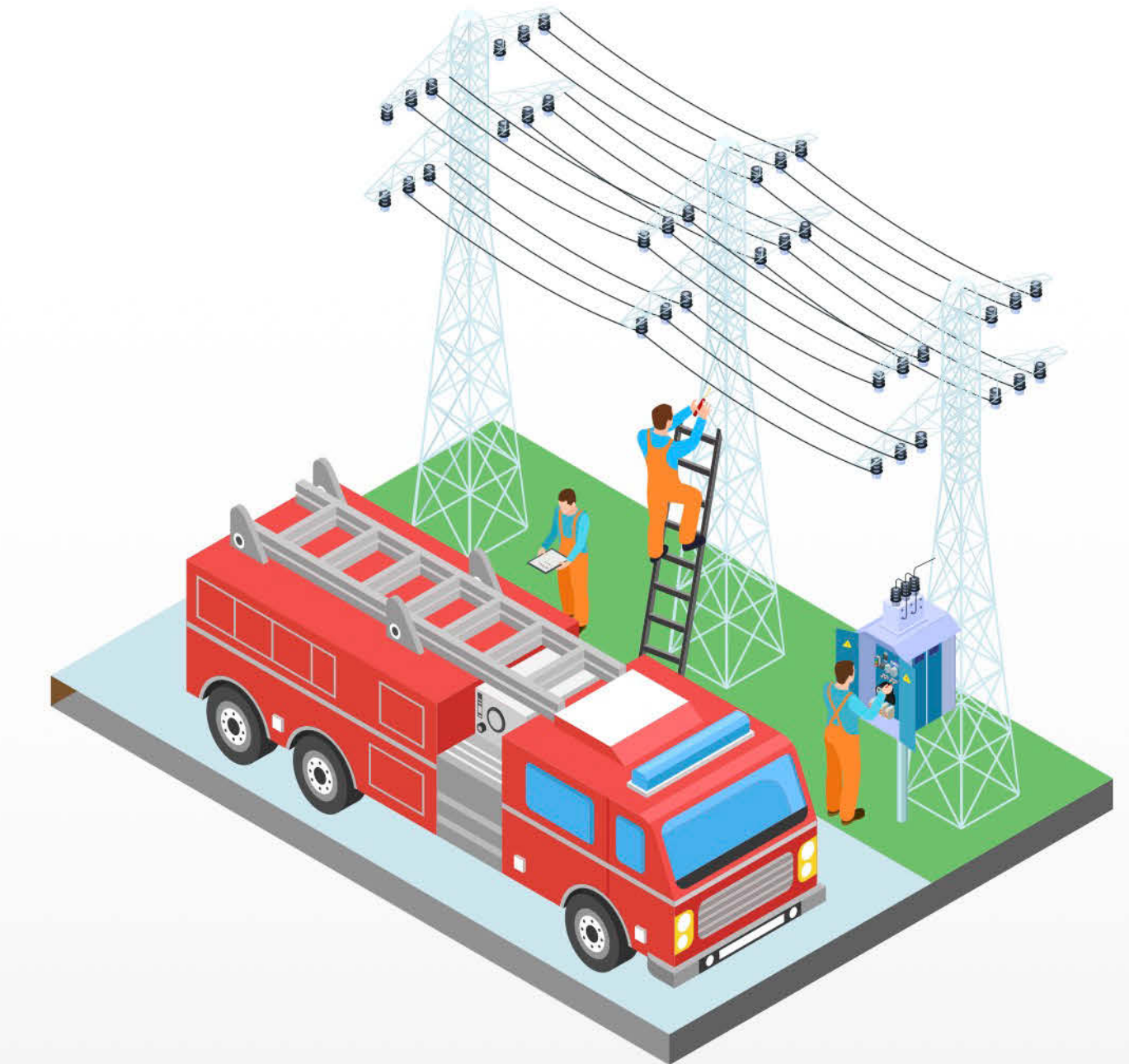
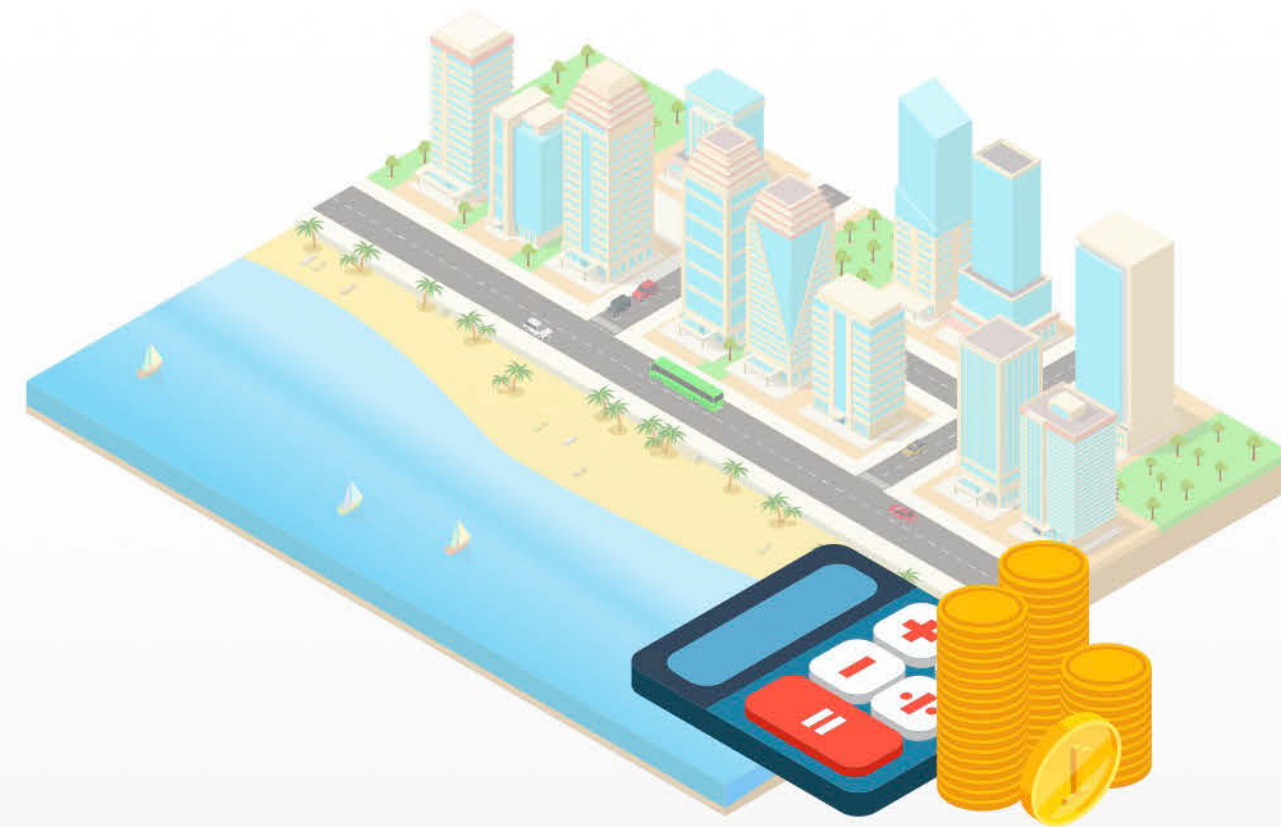


Extrapolated from real estate sales



Self-assessed by landholders
(with conditions)

National revenue, **local** budgeting



Reaffirming Vanuatu's **sovereignty**



Financial
self-sufficiency



Regulatory
autonomy



Untethered
prosperity



ECONOMIC
STRENGTH &
INDEPENDENCE

Thank you
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