

# Can a rural land tax work?

**N**ew Minister of Land Affairs, Derek Hanekom, has said he favours a rural land tax being implemented and will be setting up a committee in the next two months to investigate its feasibility.

He said that although a land tax would not provide a source of central state revenue, it would encourage farmers to use land productively. "If they do well, the percentage of the income which goes to tax would go down. This would encourage people to either produce more efficiently and increase their income - a good thing - or if they can't do this, it will be an incentive for them to sell or lease. Such a tax would provide revenue for local government," he said.

He conceded that although he personally favoured a land tax, its benefits had to be weighed against administration costs and resistance to it from farmers.

The Land and Agricultural Policy Centre (LAPC) in a recent briefing document, examines the issue and suggests several benefits of a rural land tax.

The document points out that urban property owners in South Africa already pay taxes on their properties, in the form of rates. A rural land tax could generate revenue to finance roads, schools and other

infrastructure and services for rural areas.

Such a tax would not substitute more direct ways of addressing restitution resulting from forced removal, but it would serve as a gentle reminder to current landowners that they should use land productively. The document suggests that the tax should be set at between 1% and 2% of actual market value of land and some improvements. New investments in productive improvements should be exempted for the first five or 10 years. And landowners should have the opportunity to verify the accuracy of the valuation of their land.

They should also have an effective voice in local government structures which determine how the revenue from the tax is invested. The tax could then also serve as an instrument in building democracy and accountability of local officials to ratepayers.

One spin-off of a rural land tax would be to bring more land onto the market. Those with more landholdings than they can productively use, would be able to reduce their taxes by selling excess land.

But it will only be easier for new farmers to buy or rent this land, if the Subdivision of Agricultural Land Act is repealed. This Act makes it

difficult to buy smaller portions of land.

While the tax would be a cost to farmers, like other costs, it could be deducted from revenues in calculating income tax due. Taxes on imports, sales or value added and profit margins of state marketing monopolies could also be reduced or eliminated to lighten the financial burden on productive farmers. All landowners would have to pay the tax but it should have a progressive rate structure so that the very small landowner is not made to suffer.

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## About the Land and Agricultural Policy Centre (LAPC)

THE LAPC is an independent, internationally-funded research centre aligned to the democratic movement. It is engaged in research and analysis of policy options in four areas: land tenure and redistribution, agricultural policy, rural development and natural resource management.

LAPC briefing papers aim to guide and inform policy makers and to contribute to wider public debate.

The principal author of the briefing paper referred to in this article is Professor John Strasma of the Land Tenure Centre, University of Wisconsin, Madison.

Copies of the full version of his paper are available from the LAPC, PO Box 243 Wits 2050.