

TAXATION OF LAND

INTRODUCTION

1. The Zimbabwe economy's agricultural/pastoral sector is confronted by five major problems:
  - a. production whose trend rate of growth over the past quarter century is less than two thirds that of population;
  - b. growth of productive employment/self employment which has been very low for the economy as a whole and negative in large scale agriculture;
  - c. balance of payments pressures arising both out of slow production growth and the import intensive nature of the large farm sub-sector's capital and operating technology;
  - d. inequality of landholding and lack of access to adequate land to achieve a level of output providing a decent income for many rural families;
  - e. massive new or underutilisation of land in the large farm sub-sector.
  
2. These problems are interrelated. Communal and settlement area agriculture is in many parts of the country showing substantial dynamism as to output but is constrained by lack of land and especially of land of average quality or above. The large commercial farm sector shows less dynamism in respect to total output and little, if any, sustained trend toward reducing the degree of non and underutilisation. Indeed in general it lacks the access to additional capital and to additional

managerial skills necessary for major expansion. Even if it did not, Zimbabwe lacks the foreign exchange to support rapid expansion of the acreage fully utilised by the large commercial farm sector employing its present import intensive capital and operating technology. Therefore the rural sector does not provide opportunities for substantial increases in employment/self employment at socially acceptable income levels. Large commercial farm employment is declining as owners substitute scarce imported capital goods for plentiful Zimbabwean labour while increasing population on communal area land increases the number who are perforce self employed there but not the number able to produce adequate incomes from the land.

#### THE ECONOMIC PROBLEMS

3. Agricultural production's trend rate of growth since 1960 appears to be in the range 2 to 2.25% a year. While there are sharp swings around this growth path - largely related to weather but partly to relative price, and therefore landuse, shifts - there is no evidence of any significant change in the trend. This growth rate of rural production is clearly inconsistent with the development of the Zimbabwean economy. For one thing it is less than two thirds of the rate of growth of population. Continuation of the present trend would rapidly turn Zimbabwe into a substantial net food importer, force steady erosion of agricultural exports and of agriculture based manufacturing by shifting land from industrial/export crops to staple foods and/or lead to growing malnutrition and real dangers of starvation during drought cycles.
4. There is no reason to expect the production trend to improve on its own

without state intervention. Much of the growth in the 1970's was secured by extending the area under irrigation. Future expansion along these lines will be constrained both by the higher cost per hectare of remaining potential areas and the ceiling imposed by river flow and water table regeneration capacity. The trend for large commercial farmers to utilise a substantial portion of their gross investment to substitute for labour rather than to increase output has accelerated since independence. While this may well be rational at the micro production/ownership unit level, it is at the macro level inconsistent with maximising growth of rural output, expanding rural employment or reducing equality of income distribution and, as noted above involves substituting a scarce factor of production largely embodied in imports for plentiful Zimbabwean labour. Nor, on past evidence, does this capital intensive agricultural sub-sector achieve a high rate of return on average or incremental investment especially when account is taken of supporting public sector stock capital and of operational services and production subsidies.

5. The small scale - communal and settlement - agricultural sector has, since independence, appeared to show more dynamism. It is hard to quantify this trend both because of the severe drought conditions prevailing over 1982-84 and because the period is relatively brief. However, commercialised production certainly has increased very sharply both in staple food and in industrial/export crops. This increase has been achieved at relatively low scarce resource costs. Access to markets, provision of extension advice, access to (and limited initial subsidisation of) inputs combined with access to new land outside the communal areas have been the main causal factors. This trend, unfortunately, is likely to be slowed or halted in the foreseeable future unless continued access to land can be achieved.

6. Employment in Zimbabwe is a major problem at macro economic level. The trend rate of growth of wage employment appears to embody two factors. The first is a 1% per year decline in employment resulting from substitution of capital for labour and/or increased labour productivity (e.g. as a result of higher average levels of skills from more training and longer average job experience). The second is an increase (or decrease) in employment at a percentage rate equal to half the previous year's change in real GDP. This implies that to achieve a rate of growth of wage employment equal to that of population at 3.5 % would require sustained real GDP growth of 9% per year (i.e. a 4.5% employment gain from growth less the 1% a year trend fall). This is patently impossible. Reorientation of the economy - or at least some sectors - on less capital intensive lines may be possible but, outside agriculture, the short term prospects are either not very promising or are not large enough to generate significant overall wage employment increases. Self employment clearly is growing rapidly - the majority of new entrants into the labour force are clearly not securing wage jobs nor are they unemployed (indeed they could not survive if they were). However, there is little reason to be optimistic that the present urban informal and small scale rural sectors can provide annually 250,000 self employment opportunities productive enough and fairly remunerated enough to provide humanly and politically acceptable income levels for these Zimbabweans. Yet 250,000 a year is the likely level of the numbers of human beings requiring such self employment over the next decade.
  
7. The employment/self employment trends and prospects in agriculture are, if anything, even less satisfactory. Wage employment is declining as a result of systematic use of capital and organisational patterns to

economise on labour. Only a massive cut in real agriculture wages - which is neither humanly acceptable nor politically practicable - or a massive tax on investment goods used in agriculture - which would also pose severe problems - seems likely to reverse this trend in the large scale commercial agricultural sub sector. The communal and settlement sub sectors - which provide basically self employment plus some wage employment (largely seasonal) - have different trends and face different constraints. In the communal sector there are on the order of 500-600,000 households. Given the quantity and quality of land available, perhaps one third could earn decent self employment incomes from agriculture in these areas were the other two thirds able to shift their economic base to settlement agriculture and/or to wage employment. While production growth has exceeded population growth in these areas since independence, how long this can be continued with increasing population and no substantial margin of unused productive land is open to question. Settlement has to date been limited by organisational and cost issues but, increasingly, by access to suitable land. As the backlog of abandoned farms is used up this land availability constraint will become the critical barrier to increasing rural self employment which generates reasonable productivity and socially acceptable household incomes.

8. Unless the rate of growth of agricultural output can be increased agricultural exports cannot be expected to contribute significantly to the 6% a year sustained export growth Zimbabwe requires to achieve a 5 to 7% sustainable rate of growth of production which in turn is critical to achieving moderate (say 1 to 2% annually) gains in real personal consumption, attainment of universal access to basic social and productive services (e.g. education, health, pure water, agricultural extension) and a strengthening of the present low share of savings in

GDP. Indeed if food demand rises with population at 3.5% a year while agricultural output rises only 2.5% a year, agricultural exports are likely to fall as present food surpluses (e.g. maize, beef, sugar) are eroded by rising consumption and food crops compete ever more fiercely with export/industrial crops for ever scarcer land. To achieve a reversal of this trend by enhanced agricultural investment on high technology lines is not feasible. The import content (direct and indirect) of fixed investment is over 50% while the incremental capital/output ratio is about 2½ to 1. In large scale commercial agriculture the import content may be somewhat lower - say 40% - but the capital/output ratio is apparently significantly higher - in the 3 to 5 to 1 range. The import burden of expanding agricultural output at - say - 4 to 5% on large commercial farm technological and capital patterns is, therefore, unsustainable.

9. Inequality of landholding in Zimbabwe is a major human, social and political issue. The "land question" was central to the creation of Zimbabwean nationalism. However, it is not simply a racial question - the continued juxtaposition of large individual and corporate holdings (whoever owns them) with substantial un or underutilised land on the one hand and of many sub-marginal or landless rural households with no access to wage or decent income generating self employment on the other hand is no more socially or politically stable than it is morally or humanly acceptable. Because rapid expansion of reasonably productive rural self employment is crucial for both employment and production goals, forms and degrees of inequality in landholding which radically limit access to land cannot be defended logically nor sustained politically.

10. Repeated academic, consultancy and other technical studies have concluded

that the bulk of the land in the large commercial farming sector is not fully utilised. The recent World Bank sectoral report on agriculture and sources cited in it suggest that 80% of commercial sub-sector arable and a high proportion of ranching land is either un or underutilised. This does not primarily take the form of totally un or underutilised farms but of concentration of production on a small proportion of the hectorage on almost every farm with the balance very marginally used or left idle. The capital costs and managerial problems in radical expansion of land utilisation are such that few large commercial farmers could meet them. At the same time the costs of holding on to unused or barely used land are very low so there is no present likelihood of its being abandoned or made available to the state or to potential smallholders at low cost.

#### LAND TAXATION

11. Land taxation in Zimbabwe should be designed to address the basic rural problems of inadequate growth of production and of employment together with inequality in landholding combined with underutilisation of land. It should not be seen primarily as a revenue raising device, albeit any fiscal measure which can provide significant increases in revenue while neither severely deterring production, increasing inequality of after tax income distribution nor posing massive assessment and collection problems is worth serious consideration.
12. Any system of land taxation to be introduced must also take account of the need to avoid causing sudden, large falls in the output of the present commercial farming sub-sector. At present - and for the immediate future - substantial maintenance, and preferably at least

modest expansion, of output in that sub-sector is critical. The rapid substitution of small holdings or settlements for existing large farms on their fully utilised hectarage would lead to substantial initial falls in output because the incoming small holders could not utilise the capital intensive, high technology patterns of the present owners nor, in the short run, substitute equally efficient labour intensive, intermediate technology systems.

13. Elements relevant to constructing a land tax system appropriate to the forgoing goals and constraints include:
  - a. taxation bearing heavily on non or underutilisation of land;
  - b. progressivity of taxation with respect to hectarage held;
  - c. low incremental tax impact with respect to additional gross or net production.
  
14. Two taxes appear to meet these tests:
  - a. a tax on rated output capacity (related to type and grade of land) which can be offset against normal income tax and for fully utilised units would be equal to or less than income tax and thus fully offsettable giving a zero marginal rate with respect to net output;
  - b. a progressive tax on hectares held (again related to type and grade of land) independent of output and therefore also having a zero marginal rate with respect to output.



CONSTITUTIONAL CONSIDERATIONS

15. Neither a tax on rated output capacity nor a progressive land tax would conflict with the provisions of the Zimbabwe Constitution. Both would be well within the limits accepted in western legal traditions and decisions as proper tax measures for proper state purposes in pursuit of the public interest.
  
16. Neither measure would be confiscatory. This is self evidently true of a rated capacity land tax which on properly utilised land can be fully offset against income tax. No less confiscatory tax can readily be imagined. Certainly such a tax would seek to ensure that the nation's land was more fully and productively utilised but that is an eminently proper - and indeed common - aim of public policy in general and of tax policy in particular. Nothing in such a tax would forbid the present land owner to utilise the land more fully himself or to sell it to someone who would do so. If he were to hoard land and to pay high taxes for doing so that would be his own decision not that of the state nor an inherent result of the tax. Progressive land taxation would be no more confiscatory than any other type of progressive taxation. It would - because not related to production - have less of a disincentive effect to raising net income from large farms than the existing progressive income tax, but is otherwise legally and morally virtually indistinguishable from it. The raising of adequate revenues to sustain the programmes properly decided upon by a legitimate state and the use of taxation as an instrument to limit inequality of wealth and of income are both firmly established in legal theory and precedent as among the inherent rights of a state (indeed they are usually viewed as among its obligations as well) and as in no way inherently confiscatory. Admittedly a progressive land

tax could be abused and could be set at levels which would be confiscatory. The possibility of abuse, however, does not render the principle of progressive taxation nor its legitimate application improper or unlawful.

17. Neither a rated capacity tax nor a progressive land tax would constitute confiscation within the meaning of the Constitution. Nothing in either would require the present landholder to sell. They might create circumstances under which he judged that it would be economically advantageous for him to do so, but that is true of many public policy measures including many tax measures and is far from compulsory sale let alone compulsory purchase legislation. Further, even were a landholder to decide to sell there is nothing in a rated capacity tax or in a progressive land tax to require him to sell to the state - much less to do so at any particular price. Therefore any purchases of land by the state subsequent to the enactment of such taxes would be acceptance of offers by the state as a willing buyer of offers for sale made by the present landholder as a willing seller, just as any sales by present landholders to individuals or corporate persons would also be on a willing buyer, willing seller basis. Therefore no special principles of valuation nor any special right to the form or remittance abroad of the proceeds of such sales would arise. If the amount or form of the payment and/or the Exchange Control regulations covering remittances of capital were seen by the landholder as unsatisfactory, he could decline to sell.
  
18. The purposes to be served by such taxes: increasing agricultural output; discouraging the holding of under or unutilised land; promoting additional employment and self employment; improving the balance of payments and ensuring adequacy of domestic food supply; reducing extreme

inequality and increasing the access of citizens to land; and raising revenue are all eminently proper public purposes. Legal doctrine and precedent are both abundantly clear that taxes designed to serve proper public purposes are not to be deemed unconstitutional because they impose costs on certain sections of the community unless gross abuse and/or narrowly discriminatory intent can be proven. If this were not the case virtually all forms of taxation would be held to be unlawful and the state would be rendered powerless to discharge its obligations, however solemn, or to pursue its purposes, however proper and however much publicly supported.

19. A partial precedent exists in Zimbabwe's neighbour Botswana. There prospecting and mining rights and land concessions were being hoarded not used. This hampered prospecting and the development of the mining industry as well as the exercise of proper urban planning and the access of urban residents to housing sites. There is in the Botswana constitution a clause protecting property rights. To overcome the social evils inherent in land right hoarding without tampering with the protection of property rights, the Botswana government took measures including a progressive tax on prospecting and mining rights postively related to the length of time they had been held without developing a mine and with provisions allowing offsetting of the tax against approved prospecting, proving and development expenditure. While not identical, the problems faced by the Republic of Botswana and the measures used by it are in many ways comparable to the problems set out and the measures proposed in this paper.

RATED CAPACITY TAX

20. A rated capacity land tax is in effect a tax on non or underutilisation of land. It does not rise with greater actual production and - if offsettable against income tax - imposes no burden on the landholder using his land fully. It declines as a proportion of output as output is raised. Therefore, it provides a positive incentive for fuller utilisation of and production from land.
21. The broad outline of the proposed tax includes:
- a. rating capacity output on the basis of efficient full utilisation of the land held;
  - b. dividing land into about ten categories for the basis of output rating. e.g:
    - i. land with access to irrigation (whether actually irrigated or not);
    - ii. good dry farming arable;
    - iii. average dry farming arable;
    - iv. poor dry farming arable;
    - v. cultivated tree or bush crop;
    - vi. good pastoral;
    - vii. average pastoral;
    - viii. poor pastoral;
    - ix. woodlot and forest;
    - x. other (e.g. residential).
  - c. The tax would not apply to urban areas nor to land used for approved non-agricultural purposes;
  - d. the tax would be levied as a percentage of gross rated capacity output - say 10%;

- e. the tax could be offset against income tax relating to the same landholding (but not to income tax liability relating to other landholdings or sources of taxable income);
- f. holdings under a minimum rated capacity, say \$2,000 - perhaps corresponding to 10 hectares of average arable or 100 hectares of poor pastoral land or a combination thereof - would be exempt from tax. This exemption would be analagous to that applying to incomes below a certain level in the Income Tax Act. Analagous exemption provisions would be made on a per household basis (with a grace period to carry out full settlement) for communal settlement and production co-operative landholdings.

The tentative rate of 10% is based on preliminary calculations that net operating income of the large commercial farming sub sector is approximately 40% of gross and (after allowances and deductions) is subject to an average income tax rate of 25%. Thus for a farm of average efficiency of operation on all of its landholding the 10% gross rated capacity tax would be fully offset against the income tax payable.

22. The attractions of this form of tax include:
- a. it would create no pressure on large scale commercial farmers to reduce output on presently fully utilised hectarage - quite the contrary;
  - b. therefore, it should not lead to alarm or despondency by farmers properly utilising their holdings, but should lead to such farmers either developing or disposing of presently underutilised or unused land;
  - c. the present output on such land is by definition low so that the output at risk would be minimal;

- d. whereas evidence from the communal and settlement areas indicates that even initial and more especially medium term output by peasant farmers would be substantial, most certainly above the present output levels of un or underutilised land;
- e. while there is nothing in the tax to prevent sale to other present large scale commercial farmers or to potential entrants into that sub-sector, for most commercial farmers, finance, imported equipment and materials and managerial constraints are likely to impose severe limitations on such purchases of land to develop;
- f. therefore, it would be appropriate for the state to stand ready - on a willing buyer - willing seller basis - to acquire land either to allocate to settlement schemes, production co-operatives or individual smallholders on a leasehold basis or to sell to them on a time payment basis;
- g. because there would be no incentive to sell utilised land or the improvements, equipment, buildings and herds on it and because it is likely that there would be a buyers market in under and unutilised land, the cost to the state of securing land would be much lower than if entire farms were purchased either on a willing buyer - willing seller or a compulsory purchase basis;
- h. while this would mean that development costs would be incurred - by the state for basic infrastructure and services and by the peasant farmers for land improvement, buildings, equipment, herds and working capital - these costs would not necessarily be much higher than when whole farms are acquired because much of the infrastructure for peasant farming is absent on such farms (and especially on the un or underutilised portions) and much of the large farm assets (in particular high income housing and related amenities) are of little value to the new users of the land;

- i. peasant farm development (as well as rural infrastructure construction) can make substantial use of rural labour whether on the basis of the farmer investing in improving his own land improvements and buildings or/and via off season and work relief (during drought years) wage employment of the incoming farm families and other rural residents. In addition the simpler construction and implements required for peasant farming at a \$1,000 to \$2,000 gross income level (including production for household provisioning) both have a lower cost per person or household gainfully employed and a lower import content than for the capital intensive, high technology approach of large commercial farms;
- j. measures to provide for financing of land purchases; organisation and allocation of land to settlements, co-operatives and peasants; to supply initial finance (in cash or materials) to incoming farmers to augment their labour and existing resources; and to finance, construct and operate basic infrastructure and services would be needed. These would require adaptation and development of the present settlement, extension of basic services to rural areas and agricultural marketing and extension reorientation to serve all farmers approaches - not any basic changes in their strategy. Their details are beyond the scope of the present paper on land taxation;
- k. a substantial portion of the land transferred to peasant use would be suitable for maize, oilseeds and tobacco. Experience since Independence has demonstrated the capacity of Zimbabwe peasant farmers to achieve significant and rising outputs per hectare of these crops and thereby to generate acceptable household incomes if they have access to adequate land. Maize is needed to ensure self sufficiency in staple food availability and to allow regional market exports. Sorghum and millet (beyond grower household consumption)

can be directed to livestock feeding reducing the growing pressure this use now imposes on maize supplies. Additional oilseed production is needed to replace imports and to augment cattle feed supplies and could also provide additional exports. Enhanced cotton and tobacco production are important to be able to meet growing domestic use requirements while increasing the earnings from these major exports. Similarly additional small stock and beef production on pastoral land is needed to augment local meat supply (both because of population growth and to improve the intake of animal protein), to increase the availability of industrial raw materials (e.g hides for leather and leather manufactures; hooves, offal and bones for glue and meal; tallow for soap and candles) and to capitalise on EEC, other European, African and Gulf export market potential;

1. tax revenue from this tax is hard to estimate. Were there to be no changes in landholding ownership or utilisation it might be of the order of \$75 to 100 million a year over and above the amount offsettable against income tax. However, that is not a realistic future revenue estimate as large commercial farmers could not bear this additional tax on unchanged incomes for very long and would either develop or sell. If all presently under and unutilised land were either developed or transferred to state and peasant ownership the tax revenue would be nil. That too is an unlikely estimate for the first five years of the tax as both selling and - especially - development take time. A rough estimate of initial year revenue might be of the order of \$40-60 million declining by the fifth year to \$5-15 million. As noted, revenue is an incidental rather than a central goal of this tax.



23. Certain technical information and elaboration would be necessary to decide on the exact form of rates for and schedules to the gross rated capacity tax and to draft a bill:
- a. determination of the number and definition of land categories needed for rating purposes;
  - b. rough survey of hectarage in each category;
  - c. checking data on average ratio of net operating to gross output and of actual average income tax liability after allowances and deductions as a percentage of net operating income (if substantial differences exist among, e.g. irrigated, dry farming arable, pastoral and tree crop different gross tax rates might be appropriate);
  - d. possible forms of abatement in years of bad rainfall - perhaps on a district by district basis;
  - e. indexation of the rated capacity either in terms of an agricultural price index or in some other way;
  - f. provision for decennial revision to take account of productivity potential changes;
  - g. simple procedures for allocating hectarage on a holding among land categories to arrive at initial rated capacity value;
  - h. integration of the tax with the land register to ensure identification of taxable landholdings and removal of holdings transferred to holders not liable to tax (i.e. those under the minimum hectarage or the state);
  - i. a collection procedure related to that for income tax to allow direct offsets and combined payment of the total amount due;
  - j. an appeals procedure initially to a specialist tribunal system and ultimately to the high court system with requirement to deposit tax claimed before access to the appeals procedure.

24. Illustrative examples

A. Hectares 500 Arable		Rated Capacity \$200/ha	
Fully Utilised	100 ha	- Gross Income	\$21,500
Underutilised	150 ha	- Gross Income	8,500
Unutilised	250 ha	- Gross Income	<u>Nil</u>
Total Gross Income			<u>30,000</u>
Net Operating Income			12,000
Income Tax Payable			3,000
Rated Capacity Income			100,000
Rated Capacity Tax			10,000
Additional Tax Payable			7,000

If the owner divested the 250 ha unutilised his additional tax liability would fall to 2,000. He could reduce it to 0 either by divesting the underutilised land or by raising output on it to \$28,500.

B. Hectares 500 Arable		Rated Capacity \$200/ha	
Fully Utilised	400 ha	- Gross Income	\$90,000
Underutilised	50 ha	- Gross Income	9,000
Unutilised	50 ha	- Gross Income	<u>Nil</u>
Total Gross Income			\$99,000
Net Operating Income			\$42,000
Income Tax Payable			\$10,500
Rated Capacity Income			\$100,000
Rated Capacity Tax			10,000
Additional Tax Payable			Nil

In this case 80% of the land is fully utilised with outstanding (over

standard rated capacity) gross yields and an above average ratio of net operating to gross income. This farmer could, in fact, retain his modest under and unutilised proportions of landholding for future development at no tax cost.

25. The results of a rated capacity land tax are projected as including:
- a. modest expansion in fully utilised large commercial farm sub-sector hectarage and output;
  - b. substantial transfers of presently un and underutilised land to the small farmer/settlement sub-sector directly or via the state;
  - c. substantial increases in small farmer/settlement sub-sector output and productive employment;
  - d. additional output concentrated on maize, millet and sorghum, oilseeds, cotton, tobacco, small stock and beef in the small farm/settlement sub-sector and on maize, wheat, tea, coffee, tobacco, certain fruits and vegetables, exotic crops for sale to northern hemisphere markets and beef in the large commercial farming sub sector;
  - e. substantial relief in respect to food availability and significant in respect to balance of payments pressures;
  - f. modest initial direct revenue gains rapidly declining to relatively insignificant levels as land transfers and development take place but with a buildup of significant tax revenue on output gains and on purchases financed from them.

PROGRESSIVE LAND TAX

26. The goals to which a progressive land tax is relevant are basically the same as those addressed by a rated capacity tax. However its impact would not be identical:

- a. it would be progressive with respect to hectarage held and therefore would create an incentive for large landholders to reduce the size of their holdings even if all their land were fully utilised;
- b. because it would not be offsettable against income tax, a progressive land tax might provide a more stable secondary source of revenue than the rated capacity tax;
- c. by the same token it would increase total taxation on holdings above minimum level not subject to tax (and especially on very large holdings) but it would have a zero marginal rate with respect to production increases.
- d. at plausible levels per hectare it would probably be less effective in promoting development or transfer to the small farmer/settlement sub-sector of under or unutilised land particularly from middle sized holdings.

27. Certain conceptual and practical problems exist with respect to a progressive land tax:

- a. it is a wealth tax levied on one farm of wealth only and would therefore create an incentive for allocating new investment to sectors other than large scale commercial agriculture;
- b. at high rates it might cause abandonment or disorderly division of significant numbers of large landholdings with not insignificant interim disruption of production and if initially at low rates might give rise to uncertainty as to future levels which would inhibit

desirable large commercial farm development investment;

- c. corporate farms (including ranches and plantations) would be subject to high rates of tax unless special provisions were made for them. In respect to certain crops - e.g. sugar, tea - at least large core estates are probably necessary for productive efficiency and the same may hold true of certain types of medium to small scale irrigation schemes.

28. However, these problems are by no means as clear or general as they may appear and, to the extent they are real, can be minimised by careful formulation of the tax:

- a. because it is in agriculture that small scale, labour intensive production and investment has the most general comparative efficiency as a partial substitute for large scale, capital intensive investment, there is a case for creating an incentive pattern for large scale investment moderately skewed in favour of sectors other than large scale agriculture. This is particularly true of the significant portion of recent and present large commercial farm sub sector investment designed to substitute capital for labour rather than to raise output. The disincentive effect would be sharpest in respect to land speculation and land hoarding which are types of investment which it is in the public interest to discourage;
- b. care can be taken to avoid setting rates at levels which would do serious damage to the economic viability of well run large scale commercial farms. Fears of future rates escalating can be reduced by a clear statement of intent to avoid rates damaging well run holdings of reasonable size and to hold initial rates constant for at least three years;

c. in the case of crops or production techniques which are economically desirable and for which there are substantial economies of scale exemptions or reductions of rates per hectare applicable either by category or for specific enterprise could be provided for to be made by orders issued under his hand by the Minister for Finance, published in the Gazette and appended to the Act as Schedules. In respect to certain plantations - e.g. tea, sugar, perhaps coffee and beans - exemptions might be conditional on the development of viable outgrower schemes to agreed levels over an agreed time frame since the combination of a core estate and contract, small farmer outgrowers has proven effective in these crops in other countries. However, there neither should nor would be any presumption that huge corporate holdings - e.g. in ranching or grain production - were economically more efficient and therefore there would be no presumption that exemptions - conditional or otherwise - would be issued for all corporate farm holdings.

29. The progressive land tax would:

- a. be levied on all holdings above the exemption limit provided for in the rated capacity tax schedule;
- b. be operated on the same land category system as the rated capacity tax;
- c. be on a slab basis with a fixed tax on hectarage in each slab; with
- d. the number of hectares in each slab varying from category to category so that progressivity was related to economic size rather than purely to physical extent;

e. be computed with reference to the rated capacity tax base as a rough indication of land value. e.g.

- i. Slab 1 - 1% of rated capacity value;
- ii. Slab 2 - 1.5% of rated capacity value;
- iii. Slab 3 - 2.5% of rated capacity value;
- iv. Slab 4 - 4.0% of rated capacity value;
- v. Slab 5 - 6.0% of rated capacity value;
- vi. Slab 6 - 8.5% of rated capacity value;
- vii. Slab 7 - 11.5% of rated capacity value.

f. include provisions for exemptions by category or specific enterprise, production unit or holding for cases in which it was in the national economic interest to encourage large scale agricultural production units.

30. For the sake of illustration in respect to average quality arable land the slabs might be:

a. Exempt	0 to	10 hectares	Nil	
b. Slab 1	10 to	100 hectares	1%	
c. Slab 2	100 to	250 hectares	1.5%	
	3	250 to	500 hectares	2.5%
	4	500 to	1000 hectares	4.0%
	5	1000 to	1750 hectares	6.0%
	6	1750 to	2500 hectares	8.5%
	7	Over 2500	hectares	11.5%

31. The implications of a progressive land tax would be:

- a. increasing the economic attractiveness of non-farm relative to farm large scale investment except with respect to exempt categories or enterprises;

- b. strengthening the relative position of small and medium scale farming relative to large scale farming;
- c. discouraging massive corporate farms except in cases in which substantial nationally relevant economies of scale led to the issuance of exemptions;
- d. discouraging land hoarding and speculation;
- e. increasing the progressivity of the tax structure and providing perhaps \$20 million a year of revenue until very substantial land transfers to the small farmer/settlement sub sector had taken place;
- f. increasing the amount of land made available - directly or via the state - to the small farmer/settlement sub sector and also to medium scale farmer on a willing buyer, willing seller basis;
- g. moderately stimulating output because:
  - i. increased output would not raise progressive land tax liability and would, therefore, be the most effective means to offset its impact while continuing to hold the land;
  - ii. there would be a tendency to dispose of under and unutilised land and of relatively inefficiently operated farms so that more productive use would, on average, be made of land after than before transfer.

32. Certain technical issue examination, information and elaboration would be necessary to decide on the exact form, rates, schedules and exemptions to the progressive land tax and to draft a bill:

- a. in respect to determination and definition of land categories; rough survey of hectarage; checking of output levels/gross to net ratios/average income tax liability; possible forms of abatement; indexation of ratios; provision for decennial revision; procedures



for allocating hectarage; and integration of tax with land registers these would be done as part of the preparatory work for the gross rated capacity tax (see Para 23 "a" through "h" above) if, as proposed, the progressive land tax is adopted at the same time as and with a structure related to the gross rated capacity tax;

- b. a method of determining overall slabs applicable for farms with more than one category of land would be needed (an exercise complementary to that needed to set exempt limits for holdings of more than one category of land for the gross rated capacity tax);
- c. a method for determining common ownership with respect to individual and corporate holdings to avoid artificial 'division' of holdings to avoid tax;
- d. deciding whether or not to allow this tax as an expense before computation of (not as an offset against) income tax which would reduce any negative (enhance any positive) impact on production but would also substantially weaken its progressivity and reduce net revenue derived from its introduction particularly with respect to large individual holdings;
- e. establish a simple collection procedure possibly on a return and at dates linked to those for income tax (see Par 23 "i");
- f. identify the cases (e.g specific crops), conditions (e.g. production systems) and special requirements (e.g. phased development of outgrower schemes) necessary to qualify for exemptions or re-rating at lower per hectare rates of tax;
- g. establish an appeals procedure, preferably integrated with that for the gross rated capacity tax (see Para 23 "j").

33. The results of a progressive land tax are projected as including:

- a. effects on output, land transfers, food availability and exports

complementary to (but less significant) than those listed in respect to the gross rated capacity tax at Para 25;

- b. direct revenue effects initially lower than but probably less rapidly declining than those of the gross rated capacity tax;
- c. a moderate shift in large scale investment allocations toward non-agricultural uses and within agriculture to exempted production units;
- d. a distinct pressure toward lesser inequality in landholdings (and therefore rural incomes) in general and against very large individual and non-exempt corporate holdings in particular.

Therefore, while basically complementary and secondary to the gross rated capacity tax, the progressive land tax would add an additional element of progressivity and alter relative attractiveness of large scale investment toward non-farm uses and exempted agricultural production units.

#### CONCLUSION

- 34. Introduction of an appropriate land tax system is critical to resolving several of the major economic problems confronting Zimbabwe:
  - a. low rate of growth of agricultural output and
  - b. consequential negative trends in the agricultural sector balance of payments as well as
  - c. negative rates of growth of wage and low rates of growth of adequate productivity/income self employment in agriculture related to
  - d. massive non and underutilisation of land by the large scale commercial sub-sector combined with limited access to land for peasant farmers as well as
  - e. very high inequality in agricultural land ownership/use rights.

35. To grapple with these problems land taxes should:
- a. impose substantial costs on non or underutilisation of land; as well as on
  - b. very large holdings (except those for which a specific technical or economies of scale justification can be made);
  - c. avoid having a high marginal rate with respect to output;
  - d. be linked to policies facilitating the transfer of land/land use rights to the peasant/settlement sub-sectors and providing knowledge, production input, capital and basic infrastructure/services to complement Zimbabwean small farmer labour and skills.
36. The most appropriate single land tax instrument for attaining these ends would be a gross rated capacity output tax offsettable against income tax. It would have a zero rate on fully utilised land (and a zero marginal rate on output) but would create a major disincentive for holding land un or under utilised rather than developing or selling it.
37. Primarily because a gross rated capacity tax would not deal directly with the equality and distributional issues arising out of the present extreme inequality in landholdings, a progressive land tax is a desirable complement to it. It too would have a zero marginal rate on additional output and would encourage transfers of land - directly or via the state - to smallholders, settlement schemes and production cooperatives.
38. Because the problems to which these measures would be addressed are both grave and urgent and because the process of land transfer and smallholder, settlement scheme, production co-operative expansion of output will take time, an early decision to act along these lines - and

especially to adopt a rated capacity output tax - is crucial. There would be substantial technical work to be done in elaborating and instituting the proposed tax measures, but this need not delay a decision in principle which is in practice necessary to secure priority attention to doing the technical work and drafting.