



contributor

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How Land Came To Be Taxed

Investors often say “houses depreciate while land appreciates”.

The French have a magnificent word for real estate - immobilier or biens immobiliers. The essential immobility of land is one reason why people fight so hard for their land rights if those rights are poorly defined.

Land cannot be moved or traded like an object. Improvements to the land are more mobile in that they are capable of being built or demolished; however, houses are also built to stand the test of time.

The influential American political economist Henry George (1839 – 1897) said, “A house and the lot on which it stands are alike property, as being the subject of ownership, and are alike classed by the lawyers as real estate. Yet in nature and relations they differ widely.”

In his work Progress and Poverty, George tells the following story:

I asked a passing teamster, for want of something better to say, what land was worth there. He pointed to some cows grazing so far off that they looked like mice, and said, ‘I don’t know exactly, but there is a man over there who will sell some land for a thousand dollars an acre.’ Like a flash it came over me that there was the reason of advancing poverty with advancing wealth. With the growth of population, land grows in value, and the men who work it must pay more for the privilege.

From this incident, George developed theories based upon the belief that land was something which should be universally owned but, unlike Marx, opposed the idea of communal ownership because he believed it could lead to dictatorship.

The solution was a land value tax, and George’s influence led to its introduction in the USA and many other countries, including Australia in 1913. At the time it was hoped that land tax would replace the need for all other sorts of taxation.



The recent Henry Review of Australia’s taxation system tried to keep the land tax issue alive, stating:

Stamp duties are a highly inefficient tax on land, while land tax could provide an alternative and more stable source of revenue for the States. When applied uniformly across a broad base, land tax is one of the most efficient means of raising revenue. This efficiency arises from the immobility of the tax base and, unlike most other taxes, levying different rates of land tax in different States has very low efficiency costs.

Note the reference to immobility. If the Government decides to turn its attention to land tax, any significant changes would probably need to be balanced by a reform of stamp duty.

To conclude, the essential immobility of land helps to make property valuable, but what multiplies the value of property over time is its proximity to employment, transport corridors and other generators of economic growth. This is why Kevin Young has always stated that TIC investors should buy investment properties as close to the CBD as possible. TIC Research applies the proximity principle as one of the most important criteria when choosing its listings. ■

PMC President Wendy Priestly’s Tip

When buying your next investment property look for a property with less land but closer to the city (as it is more valuable) i.e. a unit, villa or townhouse and then watch the value grow over the next 10 years.

2011



Feature Diary Dates

11 – 21 February 2011

Antarctic expedition

Experience one of the world’s most remote destinations onboard the luxurious Prince Albert II. PMC members are being offered this once in a lifetime opportunity to explore the Antarctic at a special members’ rate.

March 2011

PMC private train carriage to Perth

Join Kevin and Kathy Young on an exclusive three-night train journey across Australia onboard a private carriage reserved for PMC members. The journey finishes in Perth in time for the TIC Annual Conference starting on 4 March 2011.

March 2011

Tour to Broome and surrounds

Due to popular demand, PMC members are invited to attend a post conference tour to Broome and the surrounding region, staying at Cable Beach Resort. PMC members also have the opportunity to include Darwin and the Ghan train to Adelaide as an optional extra.

March 2011

Mediterranean cruise

Spend 22 days cruising the west and east Mediterranean areas aboard the MSC Splendida with other PMC members. The cruise offers excellent value for money with options for PMC members to extend their stay in Milan or Venice.

Registration

For further tour information please visit www.tic.com.au/pmcevents

Enquiries and bookings can be made through the PMC Club Travel Consultant, Sharyn Bojczenko.

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