

Dear Sir/Madam,

I would like to make the following submission on the housing market in Australia, in particular Sydney.

Clearly, house prices in Sydney have skyrocketed in recent years at rates that would seem unsustainable in future years. In the long term they cannot rise more than average weekly earnings for a given interest rate, unless it is funded by wealthy individuals outside of the city (eg. Foreign investment etc). We seem to be moving in the direction of Europe where most of the population have no hope of owning their own home and need to rent for their entire life. It seems to me the biggest factor in any society that drives the wedge between the wealthy and the poor, which are clearly relative terms is absolute ownership of land and the denial of free access to marginal land. By absolute ownership of land I mean inadequate levels of land tax on land do not sufficiently recognise the benefit that a given site receives from the presence of the surrounding community. This seems true in India, Africa, Europe or Australia. Henry George in his book "Progress and Poverty" points out the industrial revolution's promised outcome of making life easier for all was not realised. While the poor did gain access to the benefits of technology (machinery, and later electrical appliances etc) to make life easier, the cost of land whether in the form of rent or mortgage still made life a struggle for the majority of the population. The wealthy have always recognised land ownership as a guaranteed way to future prosperity requiring little effort as "safe as houses".

Clearly, increases in population and the economic prosperity of a community drive land prices up.

Has any wealth been generated in a community if an individual purchases a block of land for \$100,000 in 1990 and sells it in 2000 for \$1,000,000 or is this just a re-distribution of wealth? This is simply a re-distribution of wealth and no wealth has been created. Clearly, the increase in value of the land is due to the presence of the community and not the individual. Yes, the individual profited from the exercise and from their individual perspective believe they have created wealth, but from the community point of view no wealth has been created.

In another example, an individual purchased in 1992 a block of land with a house on it for \$200,000 with the land valued at \$100,000. Subsequently, the house was partly demolished and partly renovated to create a better house, which was sold in 2002 for \$600,000 with the land valued at \$400,000. The increase in land value from \$100,000 to \$400,000 is due to the community. The increase in the house price from \$200,000 to \$600,000 is due to the individual and the market value for building materials/labour at the time of sale.

So who should receive the benefit of the increase in land value? Should it be the individual purchaser or the community the presence of which is the cause of the increased value of land? It may be argued that the original purchaser should receive all of the benefit of the land value increase. However, is there any difference between outlawed pyramid selling where earlier buyers in the chain benefit more and the system we have at present for the housing market?

Taxation has been imposed on many items in history. One principle that can be deduced from history is whatever is taxed is reduced. In the past, England imposed a tax on the number of windows in the front of a building. A consequence of the tax was that many buildings in London had their windows blocked, which can still be observed in England today. In Amsterdam, a tax was imposed based on the width of a building. A consequence of this tax was the construction of narrow four or five story buildings, which can be observed today. If tax is levied on salary income as it is in Australia, employment is reduced as well as the net wages paid to employees. Is it just to tax an individual's efforts?

Is land tax a just tax? What would happen if land tax or land rates were increased to levels such that income tax could be substantially reduced or abolished? If this is too dramatic what would happen if land tax was increased for investors only, such that income tax could be reduced? Would increases in land tax or land rates decrease or eliminate the speculative buying of real estate? Would it have the effect that people can no longer benefit from simply owning land without performing any improvement on it? Would it make housing more affordable for the majority of the community? Would it re-direct investment funds into productive areas (business, manufacturing, professional services etc) where wealth is actually created not just a re-distribution of wealth?

Would not the community benefit more from this? Yes, those who own land will object to land tax as an unjust tax. However, the value of land is based on the presence of the community and this should be

recognised. Land tax is the economic rent an individual pays to the community (the government) for holding onto land, the value of which is determined by the presence of the community. Clearly, marginal sites, such as land outside cities may attract little or no land tax, whereas land in the centre of cities or harbour views would attract relatively high rates of land tax.

In addition, the absence of adequate land tax does not encourage optimal use of land. It allows individuals to hold land in unproductive states doing nothing with the land for years. Examples of this are vacant land or derelict buildings in the middle of the city. This is very unproductive use of land from the community point of view and inadequate land taxes encourage it.

Adequate levels of land tax would facilitate optimal use of land. Businesses and those working would be most willing to utilise land in the most expensive zones of the city and encourage those not participating in economic life to move further away from the economically valuable regions. Yes, this could force retirees to move away from their long time homes if land tax is applied to all land, not just investor's land, but this is still better than the status quo. The status quo, is where Europe is already, where the majority of people can never own a house as it is too expensive and spend a very large portion of their income on rent for the whole of their life.

I know a tax like land tax it is outside the Australia mindset because it is not based on an income stream, but look at the implications of the status quo. The younger workforce will have to travel further to their place of employment as they will be living on the outskirts of a city. The transport infrastructure cost for this uneconomic situation will be higher. They will need to spend more time travelling and more income than necessary for land/housing. They will also spend less time with their families. Yes, land tax may force retirees to move out of the economic zone of a city, which is not in the mindset and may be seen as unjust. But what is better for the community in the long term? There is one thing for sure about life, it requires acceptance of change to live it well.

An individual who has acquired land that subsequently due to the presence of the community that grows around their acquired land may object to it being taxed, and object even more so if the acquired land turns out to be located at an economically valuable site. However, I am not talking about denying them access to the land they acquired before another. Their right to use this property is acknowledged. I am, however, saying that the value of this land has risen due to the presence of the community and it is just to levy a tax, an economic rent on this land, based on the benefit its location receives from the presence of the community. A land tax would be based on the value of the land, which is due to the presence of a community, multiplied by a given rate. If an individual does not wish to pay this land tax, they can sell the land to someone who is willing to use it more fully and consequently is willing to pay the associated higher land tax. The original owner may then choose to buy land that attracts a lower land tax.

I believe Australia would be better off if it imposed adequate levels of land tax. I believe transaction taxes are also a valid form of tax (eg. GST, tolls, user-pays). There are arguments for exceptions such as health and education where it is in the interest of the whole community to optimise these areas. I also believe in the humane principle of looking after those who cannot look after themselves, but the parasite mentality of an able bodied individual abusing systems caring for disabled individuals should be avoided. I believe taxes on individual personal efforts, such as salary income tax are an unjust tax.

So why is there no example of adequate land tax imposed in the world (At least, I am not aware of any)? Is it because those who own land whether it be in India, Africa, Europe or Australia, the relative wealthy would oppose it the most, and are the people who have most influence in any community. Oddly enough, while these land holders would object to the land tax, the community as a whole would benefit if adequate land tax was introduced.

The suggestion by Menzies Research Centre's Home Ownership Taskforce headed by Malcolm Turnbull that financial institutions lend money and share in the equity of properties is clearly stupid as it would have the effect of fuelling housing prices further.

Comments that stamp duty's imposed by State governments are somehow responsible for high prices of housing (affordability) are also stupid. If stamp duty was abolished the money "saved" would simply end up in the hands of the Vendor in the form a higher selling price. Look what lower interest rates have done to housing prices. In addition, the abolition of stamp duty would encourage even more speculation in the housing market because of reduced transactions costs. Of course, real estate agents want stamp duty

reduced or abolished as they would benefit from the increased activity of buying and selling that would follow. Obviously, stamp duty at present encourages many existing home owners to renovate, rather than sell and buy due to the high transactions costs of stamp duty. Having said all this, I would prefer to see adequate levels of land tax replace stamp duty on property purchases as well as replacing taxes on salary income.

The above are but brief comments and I am happy to respond to any queries regarding the above.

Yours Faithfully,

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