IPTI Xtracts

Property Tax and Assessment News from Around the World

AUSTRALIA - July 2017

Contents

Land tax to solve Australia's housing crunch?

Tackling Australia's housing crunch shouldn't just be a matter of boosting supply. "It should also be about making more efficient and equitable use of existing housing and housing-designated land," according to Hal Pawson, a housing policy expert at the University of New South Wales.

The 2016 Census revealed that 11.2% (1,089,165) of dwellings across the country are vacant, slight uptick from the previous result of 10.2% (934,471). In Sydney and Melbourne, many properties are left vacant by foreign or local property investors.

Separate data from the Australian Bureau of Statistics also showed that vacant homes aren't the only problem – more than a million homes had three or more spare bedrooms in 2013-2014.

According to Pawson the country's tax system does nothing to discourage this waste. "It's arguably encouraged by the "tax on mobility" constituted by stamp duty and the exemption of the family home from the pension assets test," he said in an article published on *The Conversation*.

The housing policy expert called on the federal government to phase in a broad-based land tax similar to the one already introduced in ACT. Last March, Pawson said the initiative encourages owners to make the best use of land.

"While land tax is already paid by investor landlords, expanding it to other landowners (including owner occupiers, who comprise about 60 per cent of the tax base) would deter speculative holding generally, and instead bring under-utilised land and housing to the market."

"In this way, land tax helps drive the housing supply response that governments are so keen to trumpet as their main unaffordability solution," he added.

NEW SOUTH WALES - IPART approves MidCoast Council special rate variation

The Independent Pricing and Regulatory Tribunal (IPART) has approved, with a minor variation, MidCoast Council's application to increase general income above the rate peg.

The decision allows for a permanent cumulative increase of 27.3 per cent over four years instead of the 28.5 per cent increase sought by the council.

Legislative changes made by the NSW Parliament in March 2017 allow MidCoast Council to apply for, and IPART to assess, a special variation application for 2017-18.

IPART has assessed the council's application against the NSW Government's published criteria, taking into account the council's Long Term Financial Plan, the financial need of the council and the capacity of ratepayers to pay the requested increase.

IPART has approved a smaller increase because the 1.5 per cent rate peg for 2017-18 is lower than that assumed by the council in its community consultation. The approved increase is 10 per cent in 2017-18, 5 per cent in 2018-19, 5 per cent in 2019-20 and 5 per cent in 2020-21, including the assumed rate peg over the four-year period.

IPART Chair Dr Peter Boxall said the decision enables the new council to replace special variations that were in place in each of the three previous local government areas – Gloucester Shire (13 per cent), Great Lakes (6 per cent) and Greater Taree (5 per cent) – prior to amalgamation.

As such, the impact of the decision on ratepayers would be significantly less than the cumulative 27.3 per cent increase. After the removal of the existing special rate variations, the 10 per cent increase approved in 2017-18 would result in an average rate increase of around 5 per cent across the new council area.

"Special variations are designed to give councils the flexibility to generate additional income above the rate peg to meet their specific needs, with an independent assessment process to approve the increase," Dr Boxall said.

"MidCoast Council was able to meet the criteria for approval of the special variation by demonstrating a clear need for the additional revenue, that they had engaged the community about the proposed rate increases and considered the impact on ratepayers, and that they are taking steps to improve productivity and contain costs."

The council intends to use the additional $23.7 million to be generated over the next four years to provide additional funds for asset maintenance and renewal, reduce its infrastructure backlog and fund an expansion of ongoing environmental programs.

Submissions received directly from ratepayers, community groups, business groups and ratepayer associations were considered in making the decision.

"We estimate that in 2017-18, the average residential rate will increase by $67 in 2017-18, or by $243 over the four years. In 2017-18, average business rates will rise by $193, while farmland rates will go up by an average of $80," Dr Boxall said.

"However, the impacts on individual landowners may vary as the council intends to maintain separate rating structures for each of the former councils.

"In the case of the former Gloucester Shire, the increase in 2017-18 is less than it would otherwise have been under the previous special rate variation, but rates will be higher than they would have been in the former Great Lakes and Greater Taree council areas."

If implemented by the council, the increase above the rate peg would be effective for rates issued after 1 July 2017. The cumulative increase of 27.3 per cent is 18 per cent more than the assumed rate peg increase over the four-year period to 2020-21.

Dr Boxall said IPART considers the impact of the increase is substantial but reasonable given current average rate levels, the community's capacity to pay, and the council's financial sustainability and current infrastructure backlog.

IPART has attached conditions to the approval requiring the additional income to be used for the purposes outlined in the application, and that the council report to its community about how the additional revenue is spent.

MidCoast Council is among nine councils across NSW (of a total of 128) to make a special variation application to increase rates for 2017-18. IPART approved for applications in full, declined two applications and three applications were partially approved.

The full report on the council's application is available on IPART's website <http://www.ipart.nsw.gov.au>.
Mid-Coast Council – special variation summary
Requested special variation - 28.5 per cent cumulative increase over four years to be retained permanently in the rates base.
Approved increase (including rate peg) - 27.3 per cent cumulative increase over four years to be retained permanently in the rates base.
Increase in the average residential rate 2017-18 - $67
Summary of purpose - Replace existing SRVs, fund new infrastructure investment, reduce infrastructure backlogs and fund environmental programs.
Approved percentage increase per year (including rate peg increase in all years)
2017-18 - 10. per cent
2018-19 - 5.0 per cent
2019-20 - 5.0 per cent
2020-21 - 5.0 per cent
Note: all percentages include the 1.5 per cent rate peg applicable to all NSW councils in 2017-18, and the rate peg in subsequent yea

Taxing empty homes: a step towards affordable housing, but much more can be done?

Vacant housing rates are rising in our major cities. Across Australia on census night, 11.2% of housing was recorded as unoccupied – a total of 1,089,165 dwellings. With housing affordability stress also intensifying, the moment for a push on empty property taxes looks to have arrived.

The 2016 Census showed empty property numbers up by 19% in Melbourne and 15% in Sydney over the past five years alone. Considering that thousands of people sleep rough – almost 7,000 on census night in 2011, more than 400 per night in Sydney in 2017 – and that hundreds of thousands face overcrowded homes or unaffordable rents, these seem like cruel and immoral revelations.

Public awareness of unused homes has been growing in Australia and globally. In London, Vancouver and elsewhere – just as in Sydney and Melbourne – the night-time spectacle of dark spaces in newly built "luxury towers" has triggered outrage.

This has struck a chord with the public not only because of its connotations of obscene wealth inequality and waste, but also because of the contended link to foreign ownership.
Early movers on vacancy tax
Against this backdrop, the Victorian state government has felt sufficiently emboldened to legislate an empty homes tax. Federally, the shadow treasurer, Chris Bowen, recently backed a standard vacant dwelling tax across all the nation's major cities.

Similar measures have come into force in Vancouver and Paris. And Ontario's provincial government recently granted Toronto new powers to tax empty properties .

Emulating Vancouver, Victoria's tax is a 1% capital value charge on homes vacant for at least six months in a year. Curiously, though, it applies only in Melbourne's inner and middle suburbs. And there are exceptions – if the property is a grossly under-used second home you pay only if you're a foreigner.

Also, as in Vancouver, tax liability relies on self-reporting, which is seemingly a loophole. This might be less problematic if all owners were required to confirm their properties were occupied for at least six months of the past year.
But that would be administratively cumbersome.

This highlights a broader "practicability challenge" for empty property taxes. For example, how do you define acceptable reasons for a property being empty?

In principle, such a tax should probably be limited to habitable dwellings. So, if you own a speculative vacancy, what do you do? Remove the kitchen sink to declare it unliveable?
How can we be sure a home is empty?
Lack of reliable data on empty homes is a major problem in Australia. Census figures are useful mainly because they indicate trends over time, but they substantially overstate the true number of long-term vacant habitable properties because they include temporarily empty dwellings (including second homes).

About 150,000 dwellings in Sydney and Melbourne, including many apartments, are 'speculative vacancies', but establishing tax liability isn't simple. Dean Lewins/AAP

Using Victorian water records, Prosper Australia estimates about half of Melbourne's census-recorded vacant properties are long-term "speculative vacancies". That's 82,000 homes.

Applying a similar "conversion factor" to Sydney's census numbers would indicate around 68,000 speculative vacancies. Australia-wide, the Prosper Australia findings imply around 300,000 speculative vacancies – 3% of all housing. That's equivalent to two years' house building at current rates.

According to University of Queensland real estate economics expert Cameron Murray, a national tax that entirely eliminated this glut might moderate the price of housing by 1-2%. Therefore, although worthwhile, dealing with this element of our inefficient use of land and property would provide only a small easing of Australia's broader affordability problem.
Making better use of a scarce resource
Taxing long-term empty properties is consistent with making more efficient use of our housing stock – a scarce resource. A big-picture implication is that tackling Australia's housing stress shouldn't be seen as purely about boosting new housing supply – as commonly portrayed by governments.

It should also be about making more efficient and equitable use of existing housing and housing-designated land.

Penalising empty dwellings is fine if it can be practicably achieved. That's especially if the revenue is used to enhance the trivial amount of public funding going into building affordable rental housing in most of our states and territories.

But empty homes represent just a small element of our increasingly inefficient and wasteful use of housing and the increasingly unequal distribution of our national wealth.

One aspect of this is the under-utilisation of occupied housing. Australian Bureau of Statistics survey data show that, across Australia, more than a million homes (mainly owner-occupied) have three or more spare bedrooms. A comparison of the latest statistics (for 2013-14) with those for 2007-08 suggests this body of "grossly under-utilised" properties grew by more than 250,000 in the last six years.

Our tax system does nothing to discourage this increasingly wasteful use of housing. It's arguably encouraged by the "tax on mobility" constituted by stamp duty and the exemption of the family home from the pension assets test.

A parallel issue is the speculative land banks owned by developers. The volume of development approvals far exceeds the amount of actual building. In the past year in Sydney, for example, 56,000 development approvals were granted – but only 38,000 homes were built.

In many cases, getting an approval is just part of land speculation. The owner then hoards the site until "market conditions are right" for on-selling as approved for development at a fat profit.

Properly addressing these issues calls for something much more ambitious than an empty property tax. The federal government should be encouraging all states and territories to follow the ACT's lead by phasing in a broad-based land tax to replace stamp duty.

Such a tax will provide a stronger financial incentive to make effective use of land and property. The Grattan Institute estimates this switch would also “add up to A$9 billion annually to gross domestic product”. How much longer can we afford to ignore this obvious policy innovation?

Queensland government should reform state's taxes: report

The Queensland government should reform the state's tax system to create a more competitive business environment, according to a report.

It is among 10 recommendations in the Queensland Productivity Commission's draft report into the state's manufacturing sector, due to be released on Thursday.

Queensland relies on payroll tax, transfer duties, insurance taxes, gambling duties and land tax on the unimproved value of land.

The commission said competition between states led to complex tax structures that could "create distortions", leading to people making decisions that take advantage of concessions.

"There is consensus that state tax systems can be substantially improved," the report said.

The commission said land tax, if properly designed, had little impact on people's decisions about working, saving or investing.

The government could remove or reduce taxes like stamp duties and insurance levies and move towards "less distortionary taxes" like land and payroll taxes.

"There is a strong economic argument for Queensland to generate more revenue from land tax, and, potentially, from payroll tax, as well as abolishing or reducing more distorting taxes," the report said.

"Land and payroll tax rates could be set at lower levels by reducing or removing the exemptions and concessions that currently apply."

The commission said there was also a case to consolidate the government's more than 25 existing innovation and entrepreneurial programs.

"Large numbers of small programs tend to have high administration costs," it said.

The government could lift the pool of manufacturing workers with the right skills by restructuring Vocational Education and Training, improving incentives, optimising funding and minimising compliance costs on businesses, the commission said.

Other recommendations included measures to make it easier for businesses to relocate to Queensland, avoiding further pressure on energy prices and removing impediments to procurement and labour mobility.

Treasurer Curtis Pitt asked the commission to conduct an inquiry into manufacturing in September 2016 to identify policies that could improve productivity and competitiveness.

The manufacturing sector's share of Queensland economic activity has almost halved since 1989-90.

But the report said there was no "magic bullet" policy levers for the Queensland government because many issues are outside its influence, the federal government controls key policies and "picking winners" generally comes at an overall cost to the community.

Principal Commissioner Kim Wood said the Queensland government asked him for policies to support the state's manufacturing industry, which employs 169,000 workers.

"Economy-wide policies, rather than sector-specific measures, will have the greatest benefit," he said.

"However, where incentives to individual firms or sectors are provided, they should be transparently reported."

Mr Wood said the Queensland manufacturing industry was robust and innovative.

"Undoubtedly, the manufacturing sector is facing external pressures, including strong domestic and international competition, rising input costs such as gas and electricity, and changing consumer needs," he said.

Many manufacturing firms participating in the inquiry said they tended to avoid government programs because they thought they would not be useful, or the costs of navigating, applying and complying would be too high.

The commission is seeking feedback on its draft recommendations, in addition to evidence on red tape and ways to help older, lower-skilled workers adjust to changes.

Stakeholders including industry, unions, government and academics, can provide feedback until September 6.

The final report is expected to be handed to the government at the end of October.

QUEENSLAND - Council's move to establish up-to-date rate, fee pricing

A new bid to have land values assessed every year could result in a decrease in rates and other land fees.

The annual valuation on rateable land is carried out every three years to help determine changes in official state land values as well as rates, land tax and land rentals.

Somerset Regional Council already pays the State Government more than $100,000 a year in compulsory annual valuation levies to have land values reviewed but the service is only carried out every three years.

The council's move to have land reviewed every year is expected establish a more accurate and up-to-date rate price scale and help guide landowners in the buying and selling process.

Somerset land values rose by 2.3% since the last value in June 2014 after they decreased by 7.5% in 2013.

More than $1.5 million in rates was outstanding to the council at the end of last financial year, with 29 notices of intention to sell issued to Somerset property owners.

Mayor Graeme Lehmann said the Valuer-General offered the council the opportunity to make the most of their cash and have the process carried out every year as opposed to every three years.

"If we are paying for it, it should be happening every year," he said.

"There is nothing to say rates are going to get more expensive, it's just to keep up to date with the changes.

"People need to know what the value of their land is to help with sales and that type of thing."

NEW SOUTH WALES - Rate re-evaluation is not a council windfall

I am writing in respect to the letter from Neil Gorey published in the Pastoral Times (July 7) with the heading “Land value rises need explanation”.

I feel that some of Mr Gorey’s comments need some clarification in regards to the system of rating when a re-valuation takes place.

Mr Gorey was commenting on the fact that the NSW Valuer General was re-valuing the newly established Murray River Council given that a valuation was undertaken in 2015. (The Valuer General re-values properties every three years which I believe makes the values more relevant and up to date than the four year cycle that previously existed).

Mr Gorey expressed his concern that ‘‘some ratepayers are discovering that their land value has increased significantly without any explanation with some saying figures of 10 to 12 per cent’’.

In this case, Mr Gorey’s concerns should have been allayed by the fact that on the “Notice of Valuation” it is clearly set out that if you are concerned about aspects of your notice, including your new land value, you have ‘‘60 days to lodge an objection’’, including how to obtain a review kit which will help in lodging that objection.

The kit includes an information booklet and a selection of sales that the valuer considered when determining the land values in your area.

A 1800 number was also included on each notice ‘‘for more information about land values, the valuation system or the review process’’.

Mr Gorey also wrote that “I would hope that the increase in land values is not being used as a way of delivering the new councils an underhand windfall through the ability to levy more in rates”.

And Mr Gorey concluded, “I do encourage the Murray River Council to carefully consider the impacts any rate rise brought about as a consequence of the NSW 2016 land values” and that “any decisions should be based on fairness and not bringing about an improved bottom line on council budgets”.

I can assure Mr Gorey that in regard to any council receiving a rates “windfall” due purely to a re-valuation can’t happen due to NSW rate pegging legislation, and for Mr Gorey to indicate such, shows that he either doesn’t understand the system or is being a bit mischievous due to the politicking going on in regard to the forced council amalgamations in NSW.

Below are some points that hopefully clarify the situation:

As a consequence of rate pegging legislation, any Council’s ‘‘overall’’ general rates revenue cannot increase by more than the percentage increase approved by the Minister of Local Government prior to the rating year (the maximum percentage increase for the 2017-18 financial year is 1.5%).

The ‘‘general’’ rate is the rate that is calculated by using the land value and does not include charges such as water, sewerage, garbage, storm water management and the like, and includes such rates categories as Residential, Rural Residential, Business and Farmland to name a few.

If, in a re-valuation, land values in a local government area rise in aggregate, the council has to adjust the various rates categories multiplying figure (rate in the land value $) so that the TOTAL revenue from all relevant properties does not exceed the previous year’s total, plus the percentage increase, e.g. 1.5% for 2017/18.

For example, in general terms, if say the average land value for a general rate category increased by 20%, it does NOT mean that rates would go up 20%. It would mean that the average property (20% increase) would not be affected at all by the land value increase and their general rate would rise only by the 1.5% using the 2017/18 rate pegging maximum as an example.

However, properties whose valuations were over the 20% average would be paying varying increases depending on their valuation as well as the 1.5% increase, as they have to “take up the slack” (to raise the TOTAL revenue) for those properties whose land values were under the 20% average increase.

Other varying factors that can affect rates are adjustments of such things as Base Rates and Minimum Rates, but the above is a general guide to the effects of a re-valuation, one of which is certainly not a ‘‘windfall’’ for councils.

WESTERN AUSTRALIA - Government Must Stop Land Tax Grab

The Government has been warned against another land tax hike in the Property Council's pre-budget submission.

Property Council WA Executive Director Joe Lenzo is calling on the Government to introduce a fairer and more efficient tax system in the next state budget, starting with a halt to property tax increases and abolishing land tax aggregation.

'After the 2016/17 budget period, the property industry will have been slugged with a 75% increase in land tax. This is compared to a 13% increase in total state taxation. It is clear as day that property is taking an unfair wack as this Government tries to right the ship.'

'The current land tax structure makes property a less attractive investment, passes higher costs onto tenants distorting housing affordability and reduces investor returns. The Government can give confidence back to the industry now by getting rid of land tax aggregation. This unfair practice can lead to property owners paying up to three times more land tax than a system that does not apply aggregation.'

'Ultimately we would like to see a move to a flatter tax structure which will provide a significant economic incentive for greater investment and more effective allocation of capital in the property sector.'

A review of land tax aggregation, including a reduction in the tax thresholds and the introduction of a single flat land tax rate structure, is at the heart of the Property Council's comprehensive to-do-list aimed at recalibrating the state economy. Other reforms include:

- Stamp duty reform for off-the-plan purchases and seniors looking to downsize
- Align state infrastructure provisioning with strategic state planning in a single plan for infrastructure
- Finalise the Perth public transport plan
- Introduce more meaningful infrastructure reporting
- Prioritise the funding of the State's Economic and Employment Land Strategy
- Speed up an earlier budget commitment to divest Government agency land and joint venture holdings
- Utilise proceeds of a sale of the State's electricity networks to fund major state infrastructure to support development

'In a time where difficult decisions need to be made, these reforms provide a roadmap for Government to attract much needed property investment to the state, boosting our economy,'

'As we continue our transition from the mining boom, WA is more reliant than ever on a healthy a fully functioning property sector to drive the state's economy.'

'The industry can reach its full potential and keep WA growing through reforms that improve efficiency, performance and ultimately the productivity of the property industry and the Western Australian economy more broadly.'

WESTERN AUSTRALIA - Land rate hikes get a rethink

The Department of Local Government and Communities has signalled it would turn down the Town of Port Hedland’s move to slug owners of vacant commercial and industrial land a rate of 11.0852 cents in the dollar.

The State Government agency’s move has forced the Town to consider adjusting the new category’s proposed rate to pass its local government budget on time. The Town had created a new category of GRV Commercial and Industrial —Vacant Land in its 2017-18 rating strategy in May but the increase would have required them to apply to the department for ministerial approval for its intended 11.0852¢/dollar rate given it exceeded by two times the minimum rate.

However, in a response from the State department, a senior legislation and strategy officer said the proposed rates hike was not supported because there was “nothing that justifies” the significant increase ratepayers would receive as a result.

“This will need to be reconsidered by council,” the officer said.

It comes after the local government received five statements from affected landowners in objection.

With passage of the Town budget looming, councillors were due to consider alternatives at a special council meeting on Monday evening, in which the officer's recommendation was to amend the rate to 6.155¢ in the dollar — the maximum amount possible without the need for ministerial approval.

Port Hedland Mayor Camilo Blanco said the original proposed rate, which was based on double the residential rate in the dollar, was intended to promote development of vacant commercial land and "very comparable" to similar rating categories at other WA local governments.

However, he said an adjusted rate of 6.155¢/dollar would still fulfil that purpose.

"As explained in the statement of objects and reasons, the motivation behind this rate was to encourage the development of vacant commercial and industrial land," he said.

"Reduction of the original proposed rate to 6.1555 will still encourage land owners to develop their vacant land as the rate will drop back to the developed land RID for industrial or commercial land once this vacant land is developed."

Port Hedland Ratepayers' Association president John Peters said the group was against any increase in rates in the current economic climate and even a 6.155¢ rate on vacant commercial land was "not business friendly" towards struggling organisations.

"We consider this rate as a punitive rate rise, because ... council has said the rate is to encourage landholders to make productive use of the land and what we are seeing here is that economic conditions are not favourable to the businesses," he said.

"It is ludicrous that businesses are already squeezed and council is putting more pressure on those who are contributing to the town."

The council also proposed a reduction of the vacant commercial land category's minimum rate, to $1180, so that fewer than half of its properties would be subject to that limit in line with regulations.

Mr Blanco said councillors did not want to delay adopting the budget to further debate rating strategies, because it could interfere with delivery of major construction works and limit them to core services.

All other Town rating categories submitted to the department were supported by the government agency.

QUEENSLAND - Rates rise under scrutiny for lower-valued properties in Logan

LAST month's council budget has fired up ex-Mayor John Freeman, claiming council "spin doctored" figures.

The minimum general rate last year for ratepayers was $776.40, compared with this year's $808.80 — an increase of about 4 per cent or $32.40.

Yet the average rate rise for the city was revealed at 1.7 per cent, a seemingly positive result for ratepayers under the March Brisbane inflation rate of 1.8 per cent.

Mr Freeman explained the average rate rise of 1.7 per cent was a broad figure for the city.

He said rates were struck on a minimum rateable value of $223,898.

Property owners with unimproved capital value greater than $223,898 fared better with hikes less than 1.7 per cent but those properties under the cut-off mark would be levied the minimum general rate.

Mr Freeman said rates from land valued below the cut-off figure, made up the lion's share of council's residential rating revenue and accounted for 63 per cent of that income stream.

"They have to strike a minimum rate value because it balances the budget," he said.

“The majority of people who live in the lower socio-economic areas of the city pay the minimum general rate — they have an increase of $32.40 or 4 per cent, not 1.7 per cent.

“The cheaper the unimproved value of the land the more rates you pay in a dollar percentage.

“So the people who can least afford it are being slugged the most amount of rates. It’s not fair — it’s miles above inflation.”

Mr Freeman called on council to be “open” and “honest” with its figures.

“When you start spin doctoring figures it leads to ‘not true’ facts coming out,” he said.

“Averages don’t lie but people make averages work in the wrong way.

“As a mayor or councillor it’s your job to explain why you have to charge these prices. If people explain the situation they might not agree with it, but they will accept it.”

Mr Freeman commended council for freezing water and sewerage charges.

He was Logan Mayor for six years until 2006 and ran against Luke Smith in last year’s campaign.

Logan City Council said Mr Freeman’s claims were incorrect.

“The 1.7 per cent rise Council reported in its budget relates to all rates and charges on the rate notice our residents on the minimum general rate receive,” a Council spokesman said.

“In getting his 4 per cent, Mr Freeman has plucked one figure – the figure for general rate charges only - out of a range of figures for rates and charges on the rates notice.

“If you are a resident on the minimum general rate, the difference between the total of what you paid in Council rates, and charges last year and what you will pay this year is a 1.7 per cent increase. End of story.

“Selective commentary aside, we were happy Mr Freeman commended Council’s move to freeze its water and wastewater charges, a decision that allowed us to make Logan’s rate increase one of the lowest in South-East Queensland this year.”

VICTORIA - Farmers concerned about 'extreme' council rate rises for Ararat Rural City farmland

A State Government inquiry will conduct public hearings this week into what has been described as an "extreme" example of council rate rises in the Ararat Rural City Council (ARCC).

Farmers in the area, approximately 250 kilometres east of Melbourne, are furious at an attempt by their council to raise rates on farmland by around 45 per cent.

It came as part of the new budget and rating strategy, which proposed scrapping the differential rate on farmland, in favour of a flat rate for all ratepayers.

Local farmer, Jack Tucker, said it would have added around $26,000 a year to his rate bill.

"That's $26,000 we wouldn't be spending in the local economy, and it's extra hours we would have to work off the farm to make up the shortfall," he said.

Mr Tucker said he had lost confidence in his local council's governance.

"There needs to be a total overhaul of the budget and the rating strategy," he said.

What are differential rates?

How councils determine rates:

The rate-in-the-dollar: If council plans to raise the total rate revenue of $10 million, and the total Capital Improved Value of all rateable properties in the municipality is $2,380 billion, then the rate in the dollar is calculated by dividing $10 million by $2,380 billion = 0.0042 cents in the dollar. When the total value of all properties goes up, the council reduces the rate in the dollar to compensate.

The differential rate: Differential rates are where councils set different rates in the dollar for different categories of rateable land. Councils are able to levy either a uniform rate across all properties, or one or more differential rates.

Like many rural councils, ARCC currently applies a different 'rate in the dollar' to residential, commercial, industrial and farm land.

Differential rates are used by councils to vary the amount they can charge landowners, depending on how their property is used.

In Ararat, farm land is charged a differential rate of 55 per cent of the residential base rate.

In a 4–3 vote last month, ARCC decided to adopt a uniform rating strategy, and scrap its annual 'municipal charge' — a move that, based on council documents, would increase the contribution from the farming sector by around 46 per cent or more than $2.4 million each year, while lowering the contribution from residential home owners by just more than $1.7 million.

The move is not designed to increase the total revenue raised from rates, but it would redistribute how much each sector contributes.

At the request of the ARCC mayor and the Victorian Farmers Federation (VFF), the State Government has appointed a Commissioner of Inquiry to "work out a better rating strategy with the council".

"The Rural City of Ararat, like all councils, is entitled to make its own decision on differential rates but I want them to think again before taking a decision as extreme as this," Minister for Local Government Natalie Hutchins said in a statement to the ABC.

It is the first time the State Government has held an inquiry into council rates since it introduced rate capping in 2015.

The ARCC budget and vote on the rate strategy is on hold while the inquiry is under way.

Who wants uniform rates?

Councillor Darren Ford backs the uniform rating strategy, and defended it in a speech at a June council meeting.

"The expensive rates paid by farmers cannot be dealt with in isolation to the overwhelming financial hardship of Ararat," he said.

"Council can do little to fix the problem of runaway costs for rural roads, bridges and services across a small rate base.

"Answers are difficult and I suggest that most small regional councils will be watching this closely."

Fellow Councillor Glenda McLean said the ARCC "was living beyond its means and that chasing $14 million in rate money is far too difficult for the entire community".

"The trouble is that since 2010 and generally, no-one has asked the small shopkeeper starting off if they can afford rates of 160 per cent, and council does not take it into account if the householder has a large mortgage."

But farmers argue they get less access to council services, such as waste disposal, and despite the high value of their property (from which rates are calculated), their incomes fluctuate widely, and are often no different to residential home owners.

The VFF has been campaigning against similar moves by the Gannawarra Shire Council, located on the Murray River, 280 kilometres north of Melbourne.

What do farmers want?

The VFF argues the rates applied to farm land are already unfair because they are based on the value of the total property, which can be worth millions, and has been rising.

In addition, as farms have consolidated, it has left a smaller number of farmers paying an higher council rates.

While homeowners and commercial and industrial land users may only see one or two rate bills, some farmers can be paying between three or even five, VFF analysis shows.

But president David Jochinke said the VFF was also aware of the increasingly strained budgets across regional councils, as town populations decline and age.

"When we're having this discussion we are not talking about the pool of money increasing or decreasing, we're talking about how that burden is shared across the community," he said.

"We believe farmers are definitely carrying their fair share of that burden."

The VFF wants reforms to rates in line with the United Kingdom's, which bases rates on the value of the dwelling and a set amount of land surrounding it.