IPTI Xtracts

Property Tax and Assessment News from Around the World

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This is no time to increase property taxes

As the State Government prepares its 2018/19 State Budget, the real estate industry is urging Treasurer Ben Wyatt not to increase property taxes as a means of budget repair.

Western Australians are still doing it tough, and although we have seen mild improvements in the housing market, increases in transfer duty will jeopardise future growth.

Housing affordability is still a prevalent issue for many Western Australians, and increasing property taxes will simply take homeownership out of reach for many of those looking to enter the market.

This budget should ensure all Western Australians can meet their housing needs, from first homebuyers to seniors looking to downsize.

REIWA believes bringing back the First Home Owner Grant (FHOG) of $3000 for existing dwellings will boost the market and provide greater choice. It will also encourage first homeowners into existing suburbs where they can utilise pre-existing infrastructure and amenities.

Any increases in land tax will be passed onto tenants, making renting less affordable. WA has already experienced huge hikes in land tax in recent years and any more would simply discourage investment, leading to a lack of rental stock and ultimately pushing up prices.

For many seniors, the burden of transfer duty inhibits them from moving into more suitable accommodation. A concession for seniors would allow them to live in smaller, more easily maintained accommodation whilst freeing up larger housing stock for young families.

Now is certainly not the time to introduce a foreign investor tax. WA needs all the investment it can get, and placing additional taxes on foreign investors puts WA construction jobs at risk.

Ultimately, WA's property tax system should be thoroughly reviewed with a view to remove inefficient taxes that hinder growth.

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Safe and suitable housing is intrinsic to the success of local communities and the State Government should be doing everything it can to ensure access to home ownership is a reality for everyone. Now is not the time to be burdening property with additional taxes.

In the upcoming State Budget, REIWA is calling on the State Government to:

• Commit to no increase in transfer duty rates or changes to thresholds.

• Maintain the existing transfer duty exemption for first homebuyers under $430,000 and reintroduce the $3000 grant for existing dwellings.

• Introduce a $10,000 transfer duty concession for over 65s looking to right size.

• Make no further changes to rate or thresholds of land tax.

• Defer or revoke the introduction of a foreign owner duty surcharge.

• Undertake a state tax review to assess the impact of the removal of transfer duty for a broader based land tax.

Two generations of the Dunnet family have been slugged by rates rises

Peter and Carol Dunnet taught their children to work hard, save as much as they could and invest wisely. Now that advice is costing them all dearly.

The Dunnets are one of the families who've written to an ACT inquiry, calling for changes to the calculation of rates for owners of units and apartments across Canberra to be scrapped.

While rates are increasing all over the ACT as the government abolishes the "inefficient" stamp duty tax and moves towards a "more efficient" land-based method of taxation, property investors were stung twice in last year's budget, with huge increases to rates and land tax.

Before, rates were calculated after the property's unimproved value had been divided between the number of apartments of units there were on site.

That meant most apartments fell into the lowest tax bracket.

Now the rates are calculated on the entire land value, then divided between the number of units, pushing most unit owners into the top tax tier.

The change helped the ACT collect $487 million in general rates last year.

Similarly, land tax is now also calculated on the entire value of the land, rather than being divided by the number of dwellings first.

The change helped to bring in an extra $20 million this financial year.

While the government has said rates for units remain "significantly less than houses with similar market values and rental returns", those who've sunk their life savings into investment properties to secure their financial future feel differently.

Self-funded retirees Peter and Carol say they were "a bit late for the super-club" and instead invested in property for their retirement.

It took them many years and many sacrifices to pay off their three properties, but now they feel their nest egg is being "ransacked" by a government that "refuses to live within a budget".

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The rates on the one-bedroom unit in Manuka they have owned for 20 years rose from $1153 in 2013-14 to $2016 in 2017-18.

Land tax jumped from $1142 to $3044 in the same period.

That means the couple, who lives off $50,000 a year, have had to "scrimp and save" to find another $90 a week to cover their costs.

"Even in our working life we weren't rich, we've always been careful with money, we haven't been splurgers," Carol said.

"We wanted to always be able to look after ourselves like we always had. We don't rely on the pension or anything like that, we're not taking from the government we're giving.

"The increases in electricity and gas as well as rates and land tax are making it very difficult for people on fixed incomes, who get no government handouts because they have lived within their means and invested wisely. We are the ones who are just above the pension line."

Son Tim Dunnet bought his first investment property at 19, after saving nearly everything he earned from his job at Woolworths.

Now 40, and without enough superannuation to retire on, his portfolio of five properties are his retirement plan.

But while his Phillip unit has lost $50,000 of value in the last decade, his costs have increased exponentially.

In 2013-14 his rates were $1182 and land tax was $491. In 2017-18 rates were $1488 and land tax was $2029.

"We've sacrificed a lot over the years, my wife, my family, to buy investment properties. We're still sacrificing now. We don't want to rely on the government when we retire," Tim said.

"I say it's fair enough that we need to pay a little more in rates but we're being gouged by the government on rates and on land tax."

Tim says the change hasn't left them in poverty, but it means they've had to rein in the family budget severely.

The occasional dinner out with his wife was the first item to be cut, as was the yearly south coast holiday. They've also decided not to enrol the children in swimming lessons next term to save another couple hundred of dollars.

He said the government appeared to think all landlords were rich and could afford to absorb the increases.

"How do they know I can afford it? They've hit us twice which isn't fair at all."

Architect of ACT's tax reform says unit rates hike created 'inequity'

ACT Treasurer Andrew Barr has left the door open for further refinement of the rating system for units and apartments, after the architect of the ACT's tax reform, Ted Quinlan, called for "a more sophisticated solution".

The former treasurer hit out at changes to the way rates and land tax was calculated for multi-unit dwellings in last year’s budget, after owners in larger complexes were left paying more than those in smaller ones.

Before, rates were calculated after the property's unimproved value had been divided between the number of apartments of units there were on site.

That meant most apartments fell into the lowest tax bracket.

Now the rates are calculated on the entire land value, then divided between the number of units, pushing most unit owners into the top tax tier.

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However that effect is distorted in larger complexes.

A multi-unit complex with an average unimproved value of $750,000 would have a valuation-based charge of $4039 per unit if it only had two units, but a charge of $4506 if it had 300 units.

Similarly, a complex with an average unimproved value of $1.05 million would have a valuation-based charge of $6219 per unit if there 10 units, but $6308 if it had 200 units.

Mr Quinlan - who is an apartment owner - said the revised system created an "inequity which penalises some owners within larger complexes compared to those in an establishment with a few individual units all other things being equal".

Speaking to Fairfax Media, Mr Quinlan said reforming the tax system was a “noble pursuit” but the changes were a “rough and ready solution”.

“I’m not telling the current treasurer how to do his job but they’ve used a fairly blunt axe,” Mr Quinlan said.

“They need to take it back to the drawing board and rework it from the ground up."

In question time on Thursday, Mr Barr said he did not believe the tax system he had created was unequal and that current treasurers did not have to agree with past treasurers.

However he did not rule out changes to the rating system when asked if he would rethink the method of calculation.

“The government of course makes changes to legislation, pertaining to rates and taxes and other matters each year in budget processes and sometime more frequently so I wouldn’t necessarily rule anything in or out Mr Speaker and I’ll look at the comments of former treasurer Quinlan as I would at comments from anyone else in the community,” Mr Barr said.

An inquiry is under way into the changes, however the findings will be delayed after the ACT Legislative Assembly voted to set up a privileges committee into the conduct of Canberra Liberals Alistair Coe, Elizabeth Lee and Candice Burch over a flyer they distributed to letterboxes last month.

The flyer called on people to file submissions about how increased rates and land taxes had negatively affected their families via a website registered to Mr Coe.

Mr Coe said all submissions were automatically forwarded onto the committee unchanged but Labor backbencher Bec Cody said there was no evidence of this, opening up the possibility the inquiry has been "biased" or "corrupted".

Ms Cody had suggested the privileges committee be given until the end of the year to investigate the potential breach of parliamentary rules, but Greens crossbencher Caroline Le Couteur put up an amendment to instead set a reporting deadline of July 31.

The rates inquiry can continue while the privileges committee conducts its investigation, however it cannot make its recommendations to government until after that date.

Ms Cody denied the privileges committee was a way for Labor to scuttle the inquiry.

“Labor supports all sorts of inquiries into government issues. This is no different. However I think it’s really important we ensure the committee process is not messed with in anyway shape or form,” Ms Cody said.

“It puts our democracy at risk if government inquiries are fundamentally fiddled with.”

Mr Quinlan said the delay to the inquiry could be good if the government “used the breathing space to come up with something productive”, but that the Liberals should have left the committee to do its job.
However Mr Coe defended Ms Burch and Ms Lee, saying it was the job of local members to “go out, have their say and encourage Canberrans to do the same”.

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“The Labor party might not like the Liberal party putting out fliers, the Labor party may not like having their voices heard but we’re going to keep doing it, we’re going to keep working hard for Canberrans, for the silent majority of Canberrans who are struggling with the cost of living, struggling with this rates and land tax regime, and they will have their voices heard,” Mr Coe said.

Ms Le Couteur said she had no problem with Liberal politicians having opinions but she drew the line at them distributing “potential misleading” material.

“They should have known better,” Ms Le Couteur said.

Ms Le Couteur said the privileges committee should examine all third party tools that prompted people to file submissions to Legislative Assembly inquiries, and that the whole system should be overhauled.

That would include a Union ACT pro forma used to file submissions to last year's insecure work inquiry.

Bill to help increase ACT land tax by 45 per cent over five years

Chief Minister Andrew Barr introduced a bill that will help send Treasury's land tax revenue up an estimated 45 per cent over the five years to 2020-21 on Thursday.

The bill would extend land tax to as many 2500 vacant rental properties in Canberra and add a seven per cent surcharge on the tax charged to at least 189 ACT properties owned by foreign investors.

The proposals follow Mr Barr raising the fixed land tax rate by $100 and changing the way land tax was calculated on units, in the same way that has controversially raised rates for many unit owners in 2016-17.

Taken together, the changes introduced in the bill on Thursday, in addition to the changes made in the 2016-17 budget, would increase the government's total land tax revenue by some 45 per cent from 2016-17 to 2020-21.

That compares to an estimated 38 per cent rise in general rates revenue - both residential and commercial rates - over the same period, from $451 million in 2016-17 to $627 million in 2020-21.

The 2017-18 budget review released earlier this year shows land tax rising from just $106 million in 2016-17 to $154 million in 2020-21, an average of about nine per cent a year for five years.

The changes to land tax calculations and the extra $100 on the fixed charge sent Treasury's land tax take up 18 per cent from $106 million in 2016-17 to $130 million this fiscal.

But the proposals introduced in the Legislative Assembly on Thursday would increase that by at least another $10 million over four years, about $6 million for the vacant rental tax and about $4 million for the foreign investors' surcharge.

Those measures would increase the territory's total land tax revenue from $130 this year up about seven per cent to $141 million this year, with further rises of about four per cent a year for two years, to $147 million in 2018-19 and $154 million in 2019-20.

While the changes were first announced in the 2017-18 budget last June, they would not take effect until July 1 this year, if passed, and would not affect owner-occupiers in Canberra, who currently do not pay land tax.

Land tax is currently only paid on residential rental properties in the ACT, or residential land owned by a corporation or held in a trust.

It is calculated by adding the fixed annual charge of $1,145 to the average unimproved value (AUV) of the land multiplied by a marginal based on the total AUV of the land.

The rising land tax revenue forms part of the government's wider tax reform agenda, as Mr Barr's government slowly abolishes stamp duty over 20 years, in favour of increasing and widening the land tax and rates base.

Mr Barr's spokesman said the government believed there were at least 2500 vacant rental properties in Canberra the tax would soon be applied to, based on measuring those properties with unusually low power and water consumption over a 12 month period.

The government has estimated the number of properties owned by foreign investors, or offshore companies or trusts, at at least 189 in the ACT, based on the Foreign Investment Review Board's 2015-16 annual report.

Mr Barr told the Assembly the foreign investors surcharge would not be applied to Canberrans who left their primary place of residence vacant while travelling overseas or to overseas citizens living permanently in their own home in the ACT.

Valuer General report shows the size of land price increases

REAL estate, like the stockmarket, has its moods. Sometimes they say the market is rising. Or maybe it's slowing. Sometimes it even drops.
While any of these statements might be true enough at a particular time, a long-term view of the Australian property market – the Hunter included – shows a steadily upward trend in property prices, reflected in percentage increases that are sometimes in the double digits.

In the years before the property boom really took off in this region, the average suburban block was often valued more for the house that was on it, than for the land itself.

Land was cheap, in other words.

But while building costs have also risen substantially over the years – along with the size of the houses being built – the latest sets of figures from the NSW Valuer General provide a fair indication that land is now the major component of value when someone is buying an established property.

Although the values in the report are based on real estate property sales, it should be remembered that the prices quoted are for the unimproved value of the land only. They do not take into account the cost of a residence, and are calculated using "benchmark" properties, the valuation of which is extrapolated to others in the area.

In 1996, the Valuer General appraised a benchmark block of land in Ackeron Street, Mayfield, at $45,700. By 2010 that block was valued at $190,000. Now, it's valued at $340,000, a 17 per cent increase on the 2016 value of $290,000. A benchmark block in Caribou Road, Cameron Park, has gone from $54,700 in 1996 to $241,000 last year. A block in Minchinbury Road, Eleebana, has gone from $74,000 to $369,000. And land in one of Merewether's most prized streets, The Quarter Deck, has gone from $138,000 in 1996 to $715,000 last year.

Plenty of pundits have embarrassed themselves by predicting an end to the property boom before now, but prices must surely be reaching some sort of limit, based on the ability of everyday Australians to repay debt. As the old saying goes, they are not making any more land. The supply is finite, but with more and more people wanting to fit into our established cities, prices seem destined to continue to rise unless serious inroads are made into population densities.
Which is why the state government is so determined to have more apartments in Sydney, and to trigger the high-rise development of our own Newcastle CBD.

How Adelaide council rates compare on a $450,000 house

HOW much value do you get for your council rates? Figures reveal the rates paid on a $450,000 house differ by as much as $1000 a year depending which part of Adelaide you live in — and the most expensive spots aren't where you'd think.

IF you are looking for property in metropolitan Adelaide, with a set budget in mind it may pay to check up on your potential council rates before buying.

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Rates payable on a $450,000 house (valued just below our median, according to Valuer General data) can vary by about $1000 between council districts.

Council rates calculations are a complex business and it is worth noting that services between council areas can differ and that individual councils offer discounts to certain ratepayers. Scroll to the bottom to read more on rates complexity

We asked councils across metropolitan Adelaide to provide their rates bill for a $450,000 house and a $300,000 unit in their area.

We also asked them to provide their own median house price and the rates bill it would incur. The results are listed below.

While lower socio-economic areas offer buyers better value for their money in terms of space and quality, houses valued at $450,000 in Salisbury and Playford have rates bills in excess of $1900 annually.

Buy a $450,000 home in the blue-chip suburb of Burnside, meanwhile, and you will pay just $986 annually in council rates.

Here’s how the comparisons played out.

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