IPTI Xtracts

Property Tax and Assessment News from Around the World

AUSTRALIA – September 2018

Contents

ACT government urged to overhaul Canberra rates, land tax system

The inquiry into changes to the ACT's ratings system has released its final report.

The committee made six unanimous recommendations amounting to urging the system be overhauled.

The government has four months to table its formal response.

The ACT government has been urged to overhaul the territory's entire rates and land system after a lengthy inquiry into how changes to land valuation calculations hit Canberra's unit owners.

ACT Legislative Assembly Public Accounts committee chairwoman Vicki Dunne tabled on Thursday the committee's 186-page report of its inquiry into the government's controversial changes to the way land values were calculated for units last year.

Mrs Dunne told the Assembly the territory government had not kept faith with the ACT's unit owners about their rates and land tax bills, saying they had bought into the market on one set of assumptions, which were abruptly changed in 2017.

Mrs Dunne said the bipartisan committee's six recommendations were unanimous, with the most important recommendation a call for government to devise a new method of calculating rates an land tax for unit title properties.

Among the issues explored during the inquiry were how the changes had forced many unit owners to pay massive increases to their rates and land tax, as well as an apparent lack of any mandate the government had to make the changes.

It followed extensive outcry from unit owners after the way unit valuations were calculated changed last year from a share of the unimproved value of land to calculating the value of the entire block, then dividing that by the number of units, pushing most units into the highest tax bracket.

Despite wide criticism of the changes, the government has maintained they were made to address inequities in the previous system, which had some owners of top-tier unit properties paying less tax than owners of cheaper free-standing homes.

Almost all of the 98 submissions sent to the inquiry were from residents opposed to the changes, many of whom were unit owners who found their rates and land tax bills had increased substantially, in some cases more than doubling.

Many submitters, like Cook resident Melita Dahl, told the committee they bought strata-titled homes as they believed they could offset the cost of strata fees with more affordable rates.

But, her submission said, that changed in July 2017, when she suffered a 32 per cent increase in her rates bill in a single year, or an extra $494 in dollar terms.

Another, Gary Jobson of Monash, told the committee the change effectively increased the valuation based charge of the rates bill for his unit by 113 per cent, and the total rates bill up 30 per cent compared to 2016-17.

Couple Roger Neil Smith and Diana Ruth Smith also wrote the committee saying the change led to a 117 per cent increase in their valuation based charge, labelling the move an "outrageous and unprecedented money grab applying to all apartment owners without any reasonable rationale or consultation".

For some investors, the changes meant they were forced to pass on the added costs to renters, while others were now considering selling up, while some less vocal unit owners, government figures suggest, may have seen reduced taxes due to the changes.

The committee also urged the government to complete a public review of the entire rating and land tax calculation system for both units and free-standing homes to address any inequities, and that unit owners get acceSs to a progressive tax scale.

Mrs Dunne said taken together, the recommendations amounted to a call to government for a full overhaul of the territory's rates and land tax systems, to resolve what were very significant problems inherent in the current system.

Greens MLA Caroline Le Couteur said she backed the committee's report, but also wanted a wider examination of the system, which could make it more equitable, citing people on low incomes or pensions in older suburbs, where values had risen but their incomes had not.

No Labor MLA spoke to the report in the chamber, while a spokeswoman for the Chief Minister said the government thanked the committee and would review the report.

Housing: It's time for the lucky to share some of their good fortune

The real estate boom has peaked, and house prices have begun to slide in Sydney and Melbourne, but the declines so far are no match for the gains of previous years. We'd better hope it stays that way, because the only thing that will really bring house prices down sharply is a deep recession and mass unemployment. Barbecue-stopping debates about whether we, or our kids, will ever be able to afford to buy a home look set to continue.

Yet this is not the real locus of our housing crisis. The real crisis is a lack of affordable rental accommodation for people on low incomes.

One in every two low-income households renting in the private market is in housing stress. That is about 600,000 households spending at least 30 per cent of their disposable income, and often much more, on rent. As a result, they may skimp on essentials such as food, heating or healthcare.

Renting today is far more than a temporary stepping stone. The private rental sector is the fastest growing segment of Australian housing. There are more people renting in middle age, more households who have been renting for longer than 10 years and more renters with young families. Yet there are not enough affordable rental properties to go around.

When Anglicare analysed the listings of more than 67,000 dwellings across Australia it found that fewer than 3 per cent of them were affordable for a single person on the minimum wage. No city properties were affordable for an unemployed person on Newstart.

Is it any wonder then that the last census counted 116,000 people as homeless? Is it any wonder that families have been camping out at the showgrounds in Hobart, where the rental vacancy rate is 0.3 per cent? Is it any wonder that some young women feel compelled to provide sexual favours in return for a place to sleep?

The solution is to build more social and affordable housing, but this is a very expensive business. We need to invest billions.

Where does the money come from? At the last election, the Treasury estimated that Labor's promised reforms to negative gearing and capital gains tax would boost government revenue by about $5.5 billion. That is enough to build 20,000 one-bedroom apartments every year. A great start but nowhere near enough. Where does the rest of the money come from? It comes from a tax on home owners.

The flip side of housing unaffordability is housing wealth. A housing crisis for some has been a housing bonanza for others. I include myself in this category.

My wife and I bought our first house in an inner Melbourne suburb in 1990 for $137,500 in 1990. According to real estate websites, that house is now worth about $1.8 million. Even accounting for the cost of improvements, that is a windfall profit of about $1 million. We no longer own that house but have done even better from subsequent purchases. We've worked hard, but most of our wealth is the result of generational luck.

If we sell our home at a windfall profit, we pay no tax on the capital gain. When we pass on our homes to our children, they pay no tax either. The greatest benefits accrue to those who already have the most wealth and the highest incomes.

In 2004, the average value of the real estate owned by the wealthiest 20 per cent of Australia's population was worth 1.3 times the average property wealth of everyone else combined. By 2016 the multiple was 1.5 times. That's what a dozen years of real estate boom can do. A rising tide is supposed to lift all boats, but the luxury yachts ride higher than the dinghies, and those struggling in the water without a life jacket are just at greater risk of drowning.

Encouraged by the generous tax treatment of residential property, our relentless pursuit of the great Australian dream is creating an increasingly unequal society – a divide between rich home owners and poor renters. It is time for the lucky to share some of their good fortune.

The first step is to abolish stamp duty and replace it with a broad-based property tax as the Australian Capital Territory is doing.

Why? First, stamp duty is levied at the point of purchase, when buyers can least afford it, whereas a broad-based property tax spreads the costs over time. The major beneficiaries of a transition from stamp duty to property taxes would be younger Australians trying to buy their first home.

Second, the big upfront cost of stamp duty makes people less likely to shift from areas of low to high employment, or to take up new but distant jobs where their skills are most needed. Modelling by Infrastructure Australia anticipates that replacing stamp duty with a broad-based property tax could boost annual GDP by $24 billion in 20 years and lift annual federal and state tax revenues by $11 billion.

Third, shifting to a property tax could encourage more efficient use of housing. An annual property tax would encourage empty-nesters to trade a big house with spare bedrooms for something smaller and cheaper, without suffering a stamp duty penalty for downsizing.

Fourth, a property tax captures a share of unearned gains from increasing property prices. And it could be made progressive – in other words, it could be used to dampen rising inequality and raise the revenue we need to build much more social and affordable rental housing.

We can make housing fairer and more efficient. It's time to tax the family home. It's time for home owners to pay the rent on affordable housing.

NSW council rates set to rise up to 2.7%

NSW's pricing regulator has given councils the green light to raise rates by up to 2.7 per cent in 2019/20 - the biggest increase in recent years.

Ratepayers across NSW will be slugged with higher council fees after a ruling from the pricing regulator.

The Independent Pricing and Regulatory Tribunal on Tuesday gave the green light to councils to raise the rates they charge home owners by up to 2.7 per cent in 2019/20.

The increase is the biggest in recent years, mostly due to higher labour, energy and construction costs, IPART says.

Rates were only allowed to go up 2.3 per cent this financial year and 1.5 per cent a year in 2017/18.

Chairman Peter Boxall said it was up to each council to decide whether to apply the increase in full and across all households, businesses or other ratepayers.

Government knocked back market value rates reform

The Barr government quashed another proposal to shift the base for general rates away from average unimproved land value, after it baulked at the cost of calculating the charge on the market value of a property.

As rates notices land in letterboxes, the ACT Greens released a discussion paper that called for the territory to move from average unimproved land value (AUV) to market value as the basis for general rates.

Rates are increasing this year by an average of 7 per cent for houses and 10 per cent for units, as the territory government gets rid of stamp duty in favour of land-based taxation, which is widely considered to be more efficient.

The June quarter consolidated financial report showed general rates made up 29 per cent of the ACT government's revenue, while stamp duty accounted for 13 per cent. In 2010-11, before the 20-year taxation reform began, stamp duty accounted for 21 per cent of revenue and general rates 17 per cent.

Greens crossbencher Caroline Le Couteur said as the reform continued, more inequities were emerging and being "exaggerated" as rates as a percentage of government revenue grew higher.

"As we move to rates and it’s costing households more, we have to make sure it’s fair and it’s transparent and we have a long term vision about how it’s going to happen," Ms Le Couteur said.

Ms Le Couteur said charging rates based on capital improved value or improved capital value like councils do in Victoria and South Australia would mean that rates were higher for people with an expensive home and lower for people with a less expensive home.

But ACT Chief Minister Andrew Barr's spokeswoman said the government had previously considered using improved value to set rates, but determined the transaction and ongoing implementation costs were "too significant for a jurisdiction of our size".

Documents released to the Greens under freedom of information laws show as early as 2013, the government considered using market value to determine land tax, which is only paid by investors.

Under such a model, land tax on units in inner Canberra with an AUV of $107,340 but a market value of $459,500 would rise from $676 to $3305. Houses in the same area with an AUV of $518,000 but a market value of $708,000 would actually pay less land tax - $6038 down from $6462.

But the modelling showed standalone dwellings in Belconnen, Weston Creek and Tuggeranong would have incurred a significant increase in land tax, and tax on multi-unit dwellings would have increased by 400 per cent on average.

That report concluded while a market values based system would stop the bulk of rates being paid by houses as Canberra densified, using AUV created an "appropriate economic incentive to use land in the most efficient way".

It also concluded there would be a large cost to transfer to a new system of valuation, including the issue of having other taxes based on AUV.

In 2015, officials from the ACT Revenue Office spoke to property data firm CoreLogic about developing a capital improved valuation econometric model as a possible alternative basis for general rates.

CoreLogic put forward a costed proposal in early 2017, which ACT Revenue Commissioner Kim Salisbury told the firm would be considered as part of the 2017 budget.

In early March, Mr Salisbury emailed Mr Barr's director of budget and economic policy Jennifer Rayner said a trial of the CoreLogic proposal would require "significant resources" from the Revenue Office, Planning Directorate and Land Titles Office. There would also be issues with equity and incentives, and creating and maintaining the database, he wrote.

Two weeks later, he emailed the company back to say the government had considered the proposal and had decided not to pursue any changes to the base of the rating system in this term of government.

In a fiery hearing of the parliamentary inquiry into the changes to the way rates are calculated earlier this month, Mr Barr said AUV would always be the method of determining rates in a government he led.

But Mr Barr's spokeswoman said the government was closely looking at the rating system as the taxation reform moved into its next stage.

"As we approach the halfway mark of the ACT’s tax reform program, the government is already working on the detailed settings for the next five-year phase. This includes considering complex questions about fairly setting rates for very different types of properties, and the needs of Canberrans on low or fixed incomes," she said.

Ms Le Couteur said while there would be costs in moving to a market-based system, they could not be "insurmountable" given such a scheme was used elsewhere in Australia.

ACT Opposition leader Alistair Coe said the Liberals would review the proposal, but at first glance they had concerns.

"I've never known any Greens proposal that has resulted in lower taxes," Mr Coe said.

"This proposal has the potential to amplify the current rates increases.”

Mr Coe added the inequity in the current system was due to the Greens supporting the rates increases in each of the last six ACT budgets.