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Property Tax and Assessment News from Around the World

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Most property owners aren't challenging big rates rises. Here's why

Commercial property owners are avoiding objecting to massive rates rises imposed by the ACT government, fearing it could lead to even more costly legal proceedings before the territory's Civil and Administrative Tribunal.

Fewer than 15 per cent of the owners of 311 commercial properties across the city hit with massive rates increases due to a government revaluation in January last year have objected to their bills.

It was revealed during Legislative Assembly committee hearings last week some commercial property owners had been hit with increases up to 79 per cent in their annual rates bills from July last year, as a result of the government's revaluations of their properties in 2016.

The hearing followed an Assembly committee urging the government earlier this year to completely overhaul its rates and land tax system, after similar rate rises hit unit owners across Canberra last year.

Owners of properties in Phillip, particularly car dealerships along Melrose Drive, were the hardest hit, while properties in Braddon, Civic, Turner and Fyshwick were also affected.

Despite objections to valuations being the first option for owners to potentially reduce their rates bills, figures from the ACT Revenue Office show just 48 of the 311 owners affected had actually objected to the increases since they came into effect in July 2017.

The figures show 11 of 75 affected property owners in Braddon objected in the past two fiscal years; 13 out of 80 owners in Civic objected; three of 48 owners in Fyshwick and 19 out of 108 owners in Phillip objected in the same period.

ACT Property Council executive director Adina Cirson said some commercial property owners had told the council they wouldn't bother objecting to a valuation as they were concerned it would not result in a reduction, and they could be forced into appealing any decision to the tribunal.

She said if an owner had to appeal a decision on the objection to the tribunal, they could be looking at a legal bill in the realm of $80,000 to $100,000, which meant owners would likely get no real financial benefit out of an appeal.

Ms Cirson said the council was also working on approaching the government to create an intermediate step between an objection and legal proceedings, such as greater use of mediation, in an effort to find a better balance for all parties.

She said while owners of commercial property in Sydney or Melbourne had experienced significant rent rises in recent years, in Canberra owners were facing rate rises that were regularly exceeding any potential increase in rents or leases.

Ms Cirson said while the council had supported the government's tax reforms, which are abolishing stamp duty over 20 years, owners were concerned any benefit was being soaked up by increasing rates and taxes.

"The government has so far effectively capped the stamp duty abolition at $1.5 million, but these days you'd struggle to find an inner city house worth less than that, compared to a commercial property," she said.

Ms Cirson said while rates had risen significantly in the past six years since tax reform began, rents for commercial properties had not, and the territory's gross lease system (compared with a net system in NSW) meant owners could not pass on the costs to lease holders.

"Ultimately, this means for commercial owners it's really become a disincentive to invest in new commercial property, upgrade existing buildings or contribute to upgrades of the public realm of properties or improve the sustainability of their properties," she said.

"We're really saying it's now six years into this tax reform and it's really time to have a look at where this is headed and have some transparency around what's been proposed and what's actually happening.

"There's no simple answer, but right now all eyes are on the ACT from around the country on how our tax reform is progressing, and I'm being told by commercial agents people are already looking seriously at places like Queanbeyan for industrial or commercial land."

While the government would not reconsider the changes to valuations as a whole, a spokeswoman for Chief Minister Andrew Barr said if property owners could provide alternative, accredited valuations, it could be provided to the revenue office as part of an objection.

NSW is tweaking its cash cow -- stamp duty on property -- to take inflation into account

The New South Wales government has announced changes to what's been dubbed "bracket creep" on the state's stamp duty on property.

The changes to the seven price brackets of stamp duty will come into effect from July 2019 and will index the levels to inflation.

Stamp duty in NSW is currently levied in a similar fashion to income tax, starting at 1.25% on the first $30,000 of a property's value, with the tax increasing to 3.5% above $80,000, 4.5% above $300,000, 5.5% above $1 million and 7% above $3 million. There are seven thresholds.

The top rate means an effective stamp duty rate of 5.02% above $3 million and with the median house price in Sydney increasing 150% over the last 15 years from $400,000 to just over $1 million, it means the average stamp duty buyers pay has rise from 3.37% to 4.05% in that time.

The current scheme has been unchanged since 1986. NSW Treasurer Dominic Perrottet says that if his change had been in place back then, then the stamp duty on a $1 million property would now be $8,000 less.

The Berejiklian government says its change will save home buyers $500 on the average sale by 2021, with the saving, compared to the current static regime, to increase over time. While the proposed change will reduce the impact of "bracket creep", it won't eliminate it if price growth rates remain above inflation.

A $1 million property currently attracts around $40,000 in stamp duty. The changes will mean a buyer saves around $300 in 2021.

"Over time this reform will provide substantial savings," Perrottet said.

Sydney's property boom has also been a revenue boom for the government helping deliver large budget surpluses in recent years.

The 2018-19 NSW budget estimated stamp duty would generate $5.6 billion in revenue from residential sales, although Sydney's cooling property market means they figure has been cut by 10.9% compared to the previous year.

And while the indexation change announced today will cost the state budget a modest $185 million over three years, it's a minuscule figure compared to the budget's revenue estimates for stamp duty, which are expected to fall by around $6 billion between FY18 and mid-2021.

The state's revenue was already $1 billion below previous budget estimates as a result of falling property prices.

Corelogic estimates Sydney prices have fallen 8% since reaching a peak in July 2017, a figure roughly in line with the NSW government's budget estimate of a 7.5% fall.

The NSW government faces a state election in March 2019.

NSW - The state's worst tax has to go

At last, some movement on stamp duty. From next year, stamp duty thresholds, which determine how much stamp duty homebuyers pay, will rise with inflation in NSW. The Berejiklian government is showing the way; other states should follow.

Stamp duties are the worst taxes levied by state governments. They make it more expensive to move home to take a new job across town or in a different town, encouraging people to stay put.

Stamp duties are unfair. One family could pay more tax than another with similar income and assets, simply because it moves house more often.

And stamp duty revenues are much more volatile than other taxes. They depend on both property prices and turnover. House prices are down 8 per cent since their peak in July 2017. Auction clearance rates are languishing below 50 per cent. Stamp duties account for a quarter of NSW tax revenues, so this combination could punch a big hole in the state budget.

Stamp duty thresholds in NSW haven't moved since 1986 – and Sydney property prices have tripled in that time. Average stamp duties paid by Sydney homebuyers have risen sharply, from around 2.6 per cent on the median-priced house in 1995 to more than 4 per cent today.

So the government's announcement is good news. But a big question remains: what will fill the revenue gap? The budgetary cost of the NSW reform is small at first, but it will grow. Either other taxes will have to rise, or services will have to be cut.

Stamp duty costs the median Sydney homebuyer more than $43,000 today. Under these changes, the average homebuyer will be paying just $500 less by 2021. It won't do much to house prices. Stamp. Stamp duties will still be the largest single source of tax for the NSW Government. First homebuyers will continue to pay more than half the average wage in tax when they buy a home. And people who move house to take a new job, or to downsize, will continue to be punished.

That's why the NSW government should go further. It should follow the lead of the ACT government and replace stamp duties with broad-based property taxes.

An annual flat tax of $7 for every $1,000 of unimproved land value would be enough to fund the abolition of property stamp duties. Land taxes are the most efficient taxes the states can impose. Designed well and broadly applied, they don't hurt incentives to work, save and invest. This change could boost the NSW economy by $5 billion a year and add thousands of jobs.

It’s an obvious choice, yet the NSW government remains reluctant to embrace more ambitious reform. The politics are hard. Recent homebuyers would be reluctant to pay an annual tax so soon after paying stamp duty. A property tax would pose problems for people who are asset-rich but income-poor, especially retirees.

So the Berejiklian government should make the switch gradually, as the ACT is doing.

Slowly winding back stamp duty and ramping up broad-based property tax would provide NSW with a more stable revenue stream while reducing the disparity between those who bought a home just before the change and just afterwards.

And to ensure that asset-rich but income-poor households could stay in their homes, they should be allowed to defer paying the levy (with interest) until they sell their properties.

NSW Treasurer Dominic Perrottet says indexing thresholds to inflation is the most significant reform to stamp duty in a generation. Clearly our leaders need to be more ambitious. Stamp duty shouldn’t be reformed, it should be abolished.

Australian house prices drop 3.5pc, heading for 'deepest downturn in modern history'

Australian housing prices have continued to slide, with the market facing its sharpest annual decline in six-and-a-half years.

Key points:

- National property market fell 3.5pc in the last 12 months, its steepest drop since 2012
- Sydney was the weakest market in the past year, down 7.4pc
- Melbourne values had the sharpest quarterly drop, losing 2.1pc

Prices have fallen 3.5 per cent over the last year, on a national basis (to an average of $538,668), the latest figures from property analysts CoreLogic revealed.

This signals "the weakest macro-housing conditions since February 2012 ... a 0.5 per cent fall in dwelling values nationally in [the month of] October," said Tim Lawless, CoreLogic's head of research.

"With such broad-based weakness in housing market conditions, it's clear that tighter credit availability is acting as a drag on housing demand and impacting adversely on the performance of housing values across most areas of the country."

Across the capital cities, property values fell 1.6 per cent to an average of $625,125 in the last quarter.

During the last three months, regional property fell by a slower 0.7 per cent to an average of $375,444.

Priciest markets, biggest falls

Sydney and Melbourne were, once again, the weakest housing markets — their values falling by 7.4 and 4.7 per cent respectively in the last year.

These two cities, being the most expensive in the nation, had the highest concentration of investment buyers.

The median value of a Sydney dwelling was $833,876, a figure which includes both houses and apartments.

Index results as at October 31, 2018

	Change in dwelling values Month	Quarter	Annual	Total return	Median value
Sydney	-0.7%	-2.0%	-7.4%	-4.2%	$833,876
Melbourne	-0.7%	-2.1%	-4.7%	-1.4%	$665,044
Brisbane	0.0%	0.0%	0.4%	4.2%	$491,925
Adelaide	0.2%	0.2%	1.8%	6.3%	$431,554
Perth	-0.8%	-2.0%	-3.3%	0.5%	$451,148
Hobart	0.9%	1.2%	9.7%	15.2%	$445,655
Darwin	0.0%	-0.7%	-2.9%	2.5%	$433,818
Canberra	0.0%	1.5%	4.3%	9.0%	$589,415
Combined capitals	-0.6%	-1.6%	-4.6%	-1.2%	$625,215
Combined regional	-0.2%	-0.7%	0.8%	5.9%	$375,444
National	-0.5%	-1.4%	-3.5%	0.2%	$538,668

Melbourne's average property value was $665,044, making it the second-most expensive capital city.

There was also a disparity between the "upper" and "lower" quartiles of Sydney and Melbourne markets. The most expensive 25 per cent of properties in those cities saw their values drop by almost 9 per cent.

Meanwhile, the cheapest 25 per cent of Melbourne properties experienced a 2.9 per cent rise in value.

But for Sydney, the value of its cheapest properties fell by about 4.3 per cent.

During the last month, Perth was the weakest market — with values falling 0.8 per cent to an average of $451,148. Sydney and Melbourne declined by a slightly slower 0.7 per cent each in October.

Stronger growth in smaller cities

Hobart was the most affordable market (with values averaging $445,655) over the last year, but that is no longer the case.

Tasmania's capital remains the strongest market by far, rising 9.7 per cent during that period.

Darwin property has become the cheapest capital city to buy a home. Its median price was $433,818 — after values fell 2.9 per cent in the last 12 months.

Brisbane values remained flat in the last month and quarter, at $491,925.

Adelaide performed slightly better, with a tepid 0.2 per cent increase in monthly and quarterly values to $431,554.

Prices to continue falling

"We expect values will continue to drift lower in the remainder of the year, and at least the first half of 2019," Mr Lawless said.

"A big part of this downturn is to do with credit availability and rationing."

Stricter borrowing standards were a result of action taken last year by the Australian Prudential Regulation Authority (APRA).

APRA required the banks to keep interest-only loans to less than 30 per cent of their mortgage portfolio.

Capital Economics' Ben Udy agrees with that position — and believes the upcoming price declines will be steep.

"The continued fall in house prices in October is consistent with our view that prices will ultimately drop by at least 12 per cent."

Mr Udy said this would make "the current downturn the longest and deepest in Australia's modern history".

"What's more, this is all before the full effect of the tighter credit conditions linked to the [banking] royal commission has been felt."

Stamp duty fever: The bad economics behind swapping stamp duty for land tax

To paraphrase former prime minister Paul Keating, walk into any pet shop in the country and you'll find the resident galah saying we should swap stamp duty for a land value tax.

Just about every economic think tank in the land thinks it's about the best value tax change there is, among them the Grattan Institute, Per Capita, the Australia Institute, and the Centre for Independent Studies as well as a swag of academics, the Treasury in its work on the draft white paper for tax reform and the Henry Tax Review.

Among the benefits of what I will call SD4LVT are said to be greater ease in upsizing and downsizing, a more mobile population (less reluctant to buy and sell houses) and a more reliable source of revenue for state governments.

The Australian Capital Territory has already begun a 20-year phase-out of stamp duty and a 20-year build up of land tax.

But beneath the near universal enthusiasm for SD4LVT are layers of bad economics.

It is extremely frustrating to me that the leading minds in Australian policy have put their heads together and decided that the best reform they can think of is to replace a good tax on property with another good one that would be even less popular.

The more thoughtful among them don't even bother to claim that SD4LVT will make housing more affordable, yet still put it forward as the "holy grail" of tax reform.

It is bad economics because of four key points its proponents miss or overlook.

Stamp duty comes out of what the buyer is prepared to pay. This means that if you remove it, all other things equal, prices will rise by exactly the amount of the duty removed.

If the average home price is $500,000, and buyers pay a 5 per cent stamp duty, taking the total to $525,000, then when stamp duty is removed the price will immediately increase to $525,000 being what the buyer was prepared to pay.

If you replace the stamp duty revenue with revenue from land value taxes, the effects on price are less clear. The change could push them up (enriching sellers) or it could push them down.

Imagine an example economy with:

- 20 houses
- Turnover of one house each year (a turnover rate of 5 per cent)

- An average home price of $500,000
- Total stamp duty revenue of $25,000 per year

Replacing the $25,000 stamp duty revenue with a land value tax requires taxing all 20 homes at $1,250 per year each.

Whether the market price of homes rises or falls depends on whether buyers think the cost to them of $1,250 per year is lower or higher than the $25,000 upfront stamp duty they avoided. If they thought it was about the same, SD4LVT wouldn't much affect prices.

But what if turnover was half that, say 2.5 per cent, which in this example would be where one house was sold every two years? In that case, the total stamp duty to be replaced would be $12,500, which would be only $625 per house in land tax.

The new buyer could pay $512,500 for the house plus $625 per year in land tax and be equally as well off as paying $500,000 for the house plus $25,000 in stamp duty.

The net effect would be a price increase from $250,000 to $262,500.

If that happened nationally it would mean a transfer of almost $200 billion to existing owners.

Whether or not that did happen would depend on the turnover and buyer's views about the future value of money. In short, the price effects of a SD4LVT are ambiguous.

While it is said that stamp duties deter Australians from changing addresses and switching jobs, there is little evidence that they are not changing enough.

Most people who relocate for work don't buy and sell homes in order to do it.

They rent first, becoming both a renter and a landlord for a while, perhaps selling their first home later, but not quickly.

When they do sell, often for a healthy profit, stamp duty ensures they pocket less than would have, grabbing back some of what might otherwise be an untaxed capital gain.

Lower housing turnover from stamp duties mainly falls on the nearly half of sales involving investors who buy speculatively to capitalise on short bursts of capital growth before selling, in the process fuelling the boom and bust price cycle.

To me, anything that slows down real estate turnover and captures capital gains seems like a good idea.

Revenue stability

It is claimed that stamp duty revenues are much more volatile than other taxes. During a boom, they climb more than proportionally to prices since they also depend on turnover. During a bust, they fall more quickly than prices.

If I was to think in the abstract about what sort of taxes are good for the economy, I would say it is those that are pro-cyclical, meaning they automatically increase takings during a boom, and wind them back during a bust.

On this measure, stamp duty is a good tax for stabilising the economy, something important given how much our economic cycles are tied to housing markets.

The land value tax that SD4LVT proponents would replace stamp duty with would make the tax system as a whole less stabilising.

To sum up

Stamp duties don't push up the cost of housing. The claim that they impede household mobility is overblown. They do reduce asset churn, and as a result they help maintain price stability.

Their "revenue instability" is actually a huge positive for the economy as a whole. And the modelling that has underpinned the talk of high economy-wide costs is as good as made up.

Yet SD4LVT remains the apparent holy grail of Australian tax policy.

Our best policy wonks continue to push our politicians to use up the precious capital to swap one very good property tax for another, for no obvious economic gain.