IPTI Xtracts
Property Tax and Assessment News from Around the World

AUSTRALIA – January 2019

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Squeezing the rich is much more complicated than it looks

Sensible debate on how much tax should be paid by the wealthy sometimes starts with a bold statement or two.

Alexandria Ocasio-Cortez, the young left-wing firebrand member of the US House of Representatives, has become notable for two things. The first was the revelation that, as a college student, she danced on a rooftop in a YouTube video. The second was more consequential – she called for a top marginal personal income tax rate of around 70%.

This was met with the kind of response one has come to expect in our politics. Anti-tax lobbyist Grover Norquist described it as "the opening shot in a renewed war against middle-class taxpayers". Fox News' Sean Hannity decried her "radical platform". And Paul Krugman of The New York Times defended the tax policy as mainstream economics with a sound logical basis, saying "AOC, far from showing her craziness, is fully in line with serious economic research".

To Ocasio-Cortez's credit, the 70% number is consistent with an estimate from a 2011 paper by perhaps the two leading tax economists in the world, Peter Diamond (a Nobel laureate) and Emmanuel Saez (a John Bates Clark Medallist).

There are a few important things to point out about the Diamond-Saez calculation. The first is that it is for all taxes – including state and local taxes, levies, property taxes, sales taxes, estate taxes, and the individual share of corporate taxes (that come, for instance, through higher prices). We also have to include the phase out of benefits such as childcare and family support.

So, in Australia one would add to the prospective top income rate of 47%, the 2% Medicare levy, 10% GST on relevant consumption, stamp duty and land tax (which are on property values and thus multiples of income), taxes on superannuation contributions (30% for those earning more than $250,000 per annum), the implied share of corporate taxes, and more.

One can get to 70% pretty quickly. Perhaps the Ocasio-Cortez plan actually involves a tax cut for some high-income earners.

Crucial factors

Diamond and Saez also consider at what income level this top rate should kick in. The short answer is a pretty high level. Indeed, the authors perform their calculation by making sure that the number of people who pay the top rate is small enough that the impact on those folks can be more or less ignored. There is some complexity involved in this but, being generous to the authors, it would be about $US435,000 ($608,000) per annum in today's dollars.

Two crucial factors that Diamond and Saez also discuss are tax avoidance and how responsive people's labour supply is to tax rates. On avoidance, they are uncharacteristically glib, suggesting that avoidance would lead to a lower top rate, but that it is better to crack down on such behaviour. This reminds me of the 16th-century English nursery rhyme "If wishes were horses, beggars would ride", which incidentally may be the last time tax authorities achieved that kind of enforcement.

As much as Krugman and Ocasio-Cortez might like to point to the high top-tax rates of the 1950s, it is openly acknowledged that nobody actually paid such rates and that the purpose of the high rates was not even to raise revenue for redistribution. As President Kennedy said in calling for lower rates in his 1963 State of the Union address, "our obsolete tax system exerts too heavy a drag on private purchasing power, profits and employment. Designed to check inflation in earlier years, it now checks growth instead."

This brings us to the central philosophical and economic question underlying all these sorts of calculations – how much do high tax rates deter productive economic activity? There is a long debate about this, and to their credit Diamond and Saez use fairly reasonable labour-supply elasticities.

Innovation and ideas

What they don't factor in is the notion that what some, perhaps many, top income earners produce is ideas. Consider for a second how much contemporary wealth in society has been generated by innovation and ideas. Think Apple, Amazon, Uber, Intel, Facebook, Google, and on and on.

The key point about ideas is that they benefit not just the inventors, but everyone who uses the idea. They are, in the language of 2018 economic laureate Paul Romer, "non-rival". The Nobel committee's recognition of the work of Romer and other "endogenous growth theorists" is itself a direct acknowledgment of how much economic prosperity in the last century has been generated by innovation and ideas.

A recent paper by Stanford economist Chad Jones provocatively suggested that when ideas are included in the analysis optimal top-marginal tax rates might even be negative – ie, we should subsidise innovation. Indeed, we do just that through tax breaks for R&D, the award of patents and so on. Putting a heavy tax on ideas hurts everyone, not just the innovators.

Justice Oliver Wendell Holmes was right when he said, "Taxes are what we pay for a civilised society." We should, of course, close tax loopholes and we certainly should not let the wealthy avoid taxes only for the rest of society to pick up the tab. But if we want to have an honest debate about the nature of income taxes then we should engage with the facts and sometimes complicated principles involved.

To her great credit, Congresswoman Ocasio-Cortez did just that. It would be nice if the Australian political debate over taxes were similarly sensible and informed, rather than resembling the intellectual equivalent of chimps hurling faeces at one another.

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NEW SOUTH WALES - Land values increase amid property slump

Housing experts say they're puzzled how land values used by government to determine tax charges increased the past year, despite housing prices dropping off a cliff.

NSW land values have continued to climb despite prices in the housing market moving backwards.

NSW Valuer General data showed land values increased 4.4 per cent over the year to July but home prices in Sydney, which makes up two thirds of the state housing market, dropped nearly 5 per cent over the same period.

Home prices increased 3 per cent in the rest of NSW, according to CoreLogic.

Land value is an important component of the taxing regimen as the government determines how much to charge eligible land owners based on the valuer general's independent assessment.

The higher the value of the land, the more the owners are taxed.

The taxes remain a critical source of revenue for the state government, which collected $6.5 billion in land tax revenue over FY2016/17 alone, Property NSW figures showed.

Housing experts told The Daily Telegraph the land and home markets were not identical but it was rare for them to move in opposite directions.

Both land and home value assessments tended to be measured based on sales activity, which in turn was driven by changes in supply and demand, the analysts said.

A comparison of Valuer General and CoreLogic data showed movements in land values were out of synch with home prices in many Sydney regions.

The Valuer General reported land values increased 7.7 per cent for the year in the CBD area, but prices for all home types in the region dropped 4 per cent.

Land values were also said to have increased 14.4 per cent in North Sydney council, but house prices only increased 3 per cent, while unit prices dropped 0.9 per cent.

It was a similar situation in nearby Mosman where land values, as determined by the Valuer General, went up 11.2 per cent.

This was at odds with independent measures of home prices, which showed Mosman unit values went down 6.4 per cent, while house prices grew 6 per cent.

In Canada Bay, the 6.9 per cent land value increase came as house values dropped 4.7 per cent and unit values stayed unchanged.

Binvested developer and property investor Nathan Birch said it was surprising the Valuer General reported increases in land values considering the recent weakness in the market.

"It's a bit questionable that land values just keep going up," he said.

"All of the housing market has taken a belting this year. There is a general feeling that (the market) is not in good shape … you have to wonder how land values can go up," Mr Birch said.

The office of the Valuer General said valuation accuracy was tested against a range of checks, with the process quality assured by Property NSW.

Acting NSW Valuer General Michael Parke said property sales are the most important factor considered by valuers when determining land values.

"It is important to note that land value is the value of the land only, and does not include the value of a home or other structures," he said.

A spokesperson for Property NSW said "there is no single residential market trend", adding that there were both increases and decreases in land values across Sydney regions.

Land values decreased by 3.3 per cent in the Canterbury-Bankstown council area and by 3.5 per cent in Ku-ring-gai.

Housing Industry Association economist Tim Reardon said NSW land value increases could have been driven by a shortage of "shovel ready" land. "Sydney has had land supply problems for years," he said.

Master Builders Australia chief economist Shane Garrett said many factors could have driven an increase in land in some areas, but the discrepancy between overall home price and land value movements was still perplexing.

“Land values would have increased where there has been new infrastructure,” he said. “But on the whole, it goes against what you’d expect. Land values and house prices should be more in tandem.”

WESTERN AUSTRALIA - High Court rules on assessing the value of stamp duty regarding the value of company assets

A recent High Court decision outlines how to determine the value of stamp duty when assessing the value of company assets.

In brief:

In assessing the value of stamp duty, the High Court in *Commissioner of State Revenue v Placer Dome Inc* (Now an Amalgamated Entity Named Barrick Gold Corporation) [2018] HCA 59 adopted the ‘ordinary principles of valuation’ to assess the value of company assets. This starts with the value of the total property, before subtracting the value of assets which are not land, in order to produce the amount of duty payable. The contention that goodwill for legal purposes should be treated as synonymous with the ‘added value’ concept of goodwill or ‘going concern value’ as used by accountants was rejected.

The facts:

- This was an appeal from a decision of the WA Supreme Court of Appeal.
- Placer Dome Inc (Placer) was a substantial gold mining enterprise with land and mining tenements around the world, including in WA.
- In 2006, Barrick Gold Corporation (‘Barrick’) acquired a controlling interest in Placer.
- The Commissioner of State Revenue (the Commissioner) issued an assessment to Barrick, stating that Placer was a ‘listed land-holder corporation’ under s 76ATI(2) of Stamp Act 1921 (WA) and was required to pay percentage duty of $AU 54,852,300.
- Barrick objected and the Commissioner disallowed the objection.

Decision:

- The High Court upheld an assessment by the Commissioner that Placer was a ‘listed land-holder corporation’ within the meaning of Div 3b of Pt IIIBA of the Stamp Act 1921 (WA) (the Act), and that Barrick was liable to pay stamp duty of $AU 54,852,300 in respect of its acquisition of Placer

Key Principles:

- In determining the value of all land and all property to which a corporation is entitled for the purposes of s 76ATI(2)(b) of the Act, ‘ordinary principles of valuation’ are to be applied.
- Goodwill has no existence independent of the conduct of that business; goodwill cannot be severed from the business which created it.
- The ‘top down’ methodology is the appropriate way to value proportionate duty for the purposes of Pt IIIBA, Div 3B of the Act.

VICTORIA - Cash back for ratepayers after blunder sees them slugged millions in extra rates

Ratepayers across the state have been slugged millions of dollars in extra rates following a widespread property valuation blunder.

Eleven councils have overcharged ratepayers well over $4 million in total, due to an administrative error, the Essential Services Commission has found.

The total cost is still unknown, but the error means thousands of ratepayers across Victoria will receive anything from small change to a sizeable refund.

It's understood the bungle occurred after councils relied on preliminary property value data provided by the Victorian Valuer-General, rather than final, certified data.

This meant the councils stung residents with rates higher than the 2.5 per cent cap set by the state government.

The government introduced new laws at the end of 2017, aimed at centralising valuations by having the Valuer-General conduct them annually, rather than having local councils perform them every second year.

Under the slip-up, more than 22,000 businesses in the City of Melbourne were charged a total of $3.6 million above what they should have paid, as the error blew the council's rate rise to 3.82 per cent.

While that's an average overcharge of $163, this figure does not reflect the vast range in amounts paid; some less than a dollar, others much more.

"As soon as we became aware of the administrative error we began the process of determining how we would advise and refund impacted ratepayers," a council spokeswoman said.

"Other councils have also experienced difficulties during the transition process, however, we accept full responsibility," she said.

Almost all ratepayers across the Yarra Ranges Shire were overcharged a total $640,000 in excess rates, up to $20 each.

The council is in the process of refunding the money to residents who had already paid.

A letter sent out to Yarra Ranges residents this week, seen by The Age, blamed the error on "incorrect initial valuation data provided by the Valuer General Victoria."

Residents in Cardinia Shire, in Melbourne's south-east, were overcharged more than $52,000 in extra rates, about $1.22 per property.

The council reported the error at the end of last year and blamed it on "slower than expected property development across the municipality," causing an over-calculation of the number and value of rateable properties.

Ratepayers in Geelong were spared an extra hike, as council officers found and corrected the error before rates notices were sent out.

Yarra Ranges, Benalla, Cardinia, Casey, Indigo, Knox and Melbourne City councils have all vowed to immediately reimburse ratepayers, while Corangamite, Hobsons Bay, Swan Hill and Yarriambiack councils have agreed to rectify the mistake in the 2019–20 financial year.

Victorian Local Government Minister Adem Somyurek said the roll-out of the rates cap had resulted in "increased scrutiny" and he expected councils to fix administrative errors.

Councils have until June 2022 to opt-out of the state government's centralisation arrangement.

South Australian council property rates

Do Murraylands property owners really pay more in council rates than their cousins in the rich Adelaide suburb of Burnside?

Not quite, but it is close.

The Standard has compared the property rates charged by South Australia's 68 local government authorities, as well as analysing property values and minimum rates in each district to gain a picture of where local ratepayers sit on a state rankings table.

The Mid Murray and Murray Bridge councils crack the top 10 in terms of the rate in the dollar charged against property owners, though the districts at the top of the table – Kimba and Port Augusta – both charge more than four times as much.

Once property values are taken into account and the rates bill for an average house is calculated, most Murraylands councils fall into the middle of the rankings, with expected bills of between $1080, at Tailem Bend, and $1780, at Mannum, per year.

An average Karoonda resident can expect to pay less in property rates than residents anywhere else in the state – about $687.

A Burnside resident would pay about $1800, and property owners in Port Augusta, Ceduna or Whyalla upwards of $3500.
'It's absolutely out of control'
Coorong Ratepayers Action Group acting president Sandy Douglas the favourable comparisons all well and good, but the extra charges levied by her council placed a much greater cost burden on residents – especially single pensioners and other low income earners.

"It's absolutely out of control," she said.

"The $350 fixed charge (component of a rates bill) ... $300 for rubbish, $605 for CWMS (waste water management) ... we've got people who've done the figures on it and it's one of the highest."

Those extra charges were what had to be brought down, she said, to make a difference to residents; though a lower property rate would help, too.

"I'd personally like to see rate capping looked at more seriously," she said.

"It's no good rushing into it, but it needs to be looked at again.

"There's got to be something to stop these ongoing increases.

"No-one gets pay rises every year to cover all these costs."

A proposed cap on property rate increases was defeated in state parliament in August.
Auditor defends revenue-raising
The Murray Bridge council is justified in raising as much money as it does through property rates, its chief auditor has suggested.

Peter Brass, the independent chair of a committee which audits the council's financial management, gave an upbeat presentation to councillors on Monday night.

"I think there's exciting stuff going on in this community," he said.

"Somebody has to pay for it.

"If the numbers didn't match, if you're making money and not spending it somewhere, we'd ask questions; but this is a very well-run council."

He said metropolitan councils would typically provide far greater services for a comparable rate in the dollar, but noted that their populations were much larger.

"If you look at your resourcing and what they've got to pay for it, the actual amount of money coming in, they can afford that," he said.

What the Murray Bridge council had to do was engage the community and make sure ratepayers' money was being spent on what residents wanted.

Mayor Brenton Lewis mirrored Mr Brass' remarks.

"As long as we can justify the spend, I don't think we've got a major problem," he said.

Mr Brass had been pressed on the issue by retiring Councillor Theo Weinmann and Tyson Matthews, who is seeking another term.

Cr Weinmann used part of his farewell speech to the council to highlight his belief that the rate in the dollar property owners were charged needed to be lowered.

Rates make up 64.4 per cent of the council’s revenue.

National cities plan needed for a growing Australia, argues major report

Australia needs a national plan to encourage denser, better connected and more sustainable cities, argues a major parliamentary committee report. Among its many recommendations are two new ministers, a statutory office and high-speed rail.

With Melbourne and Sydney each zooming past 5 million people, expensive housing, an ageing population, an increasingly service-oriented economy and looming climate change, cities are shaping up as a major issue in Australia’s policy landscape.

But there’s little central coordination on their development at the moment.

A national plan

Following several months of work, a parliamentary committee has come to the conclusion that a “national vision” is needed, calling for a “national plan of settlement”.

“Our cities need to be better planned, better connected, more compact, more diverse and more sustainable,” argues the 472-page report published by the House of Representatives Standing Committee on Infrastructure, Transport and Cities on Monday.

The committee wants the federal government to encourage denser, more sustainable and more liveable cities. It recommends following the idea of the 30-minute city and a polycentric urban layout.

An east coast high-speed rail network, joining major cities and providing growth opportunities for the regional centres in between, should be “given priority”, the committee believes.

“The national plan of settlement must set out a vision for our cities and regions for the next fifty years and beyond,” the report says.

“It must take account of the fact that Australia’s cities and regions are not sustainable in their current form, and will become less sustainable as the population grows and ages. Achieving the required economic, social and environmental outcomes for the sustainability of our cities and regions will require a high level of integrated planning.

“This is not achievable without the coherent vision which comes from master planning both land use and facilitating infrastructure.”

Setting government up to respond

To oversee the plan, the committee wants a minister for cities and national settlement with a place in cabinet.

There would also be a senior minister with responsibility for housing. The minister would monitor housing affordability issues and lead any joint federal, state and local government response. The role would include identifying Commonwealth land holdings that could be used to improve housing affordability, and ensuring cabinet decisions promoted housing affordability.

The housing minister would also “investigate viability of nationalising and streamlining planning regulation” — an approach which has helped to increase housing affordability in Japan.

Among the 37 recommendations, the committee urges the creation of a statutory office of the national chief planner, whose role would be to provide independent expert advice on urban and regional planning and development, incorporating Infrastructure Australia and the Infrastructure and Project Financing Agency.

It wants the the federal government to encourage its state and territory counterparts to investigate setting up city commissions, along the lines of the Greater Sydney Commission.

The federal government should also review how its policies spatially impact on cities, including on issues such as the distribution of population, housing, employment, industry and services. Some of the policy areas noted in the report include immigration, negative gearing, foreign investment, subsidies on private vehicle sales and petrol, and poor coordination between levels of government on infrastructure investment.

Regional areas are not left out, either, with the committee examining how to grow sustainable regional centre.

“The successful development of both cities and regions is intrinsically linked,” reads the report.

“Regional development needs to be seen as part of a broader pattern of national development, with cities, towns and regions being developed as part of an integrated whole.”

Value capture ‘fundamental’

Value capture, where government recoups part of the increase in private land values when it builds new infrastructure, could help fund much needed projects. Hong Kong’s MTR is an example of value capture helping pay for a major transport system, the committee noted.

“The development of value capture as an organising principle of infrastructure planning and procurement, and the reform of the taxation system to match its requirements, are fundamental to the significant investment in infrastructure required to ensure the efficient growth and functioning of Australia’s cities and regions,” says the report.

The committee also recommends that the Department of Infrastructure, Regional Development and Cities and the national chief planner apply international best practice approaches to urban development to the development of national settlement plans and the design of policies and programs.

Why now is the time for tax reform

For the first time in a long time, a surplus is in sight. Like creating drought policy in the grip of drought, embarking on sensible tax reform when the budget is in the red has been difficult to accomplish. Now is the time to start preparing for the long, hard slog of reform.

The debate about whether we even have a problem is well and truly over. Australia has had a remarkable 27-year run of economic growth but the verdict is in: our taxes are inefficient. The Henry tax review delivered to Labor in 2010 told us that, and the Turnbull government's tax white paper would have said the same if it wasn't abandoned in 2015.

High company tax rates discourage business investment at the same time as generous tax concessions on investment properties and shares encourage widening wealth inequality. We are burning the candle at both ends.

Leadership turmoil and the growth of powerful lobby groups has meant the sensible centre of policy debate has ceded ground to the loudest voices in the room.

Labor triggered an outcry from vested interests when it proposed changes to negative gearing and tax refunds on dividends for retirees that had not paid taxes.

The volume of those debates gives a preview of the shouting match that would kick off if a courageous government were to consider more substantial changes such as broadening the GST, introducing a land tax or, as PwC recently proposed, eliminating the tax-free threshold and taxing most capital gains at 30 per cent.

The ideas are controversial but there is unanimous agreement from economists, business groups and welfare organisations that decisions on broad reform have to be confronted or Australia will be left with 20th century taxes two decades into the 21st century.

The Australian Taxation Office says $8 billion is lost every year partly as a result of the inefficiency of our personal income tax system. We can't afford to keep leaking revenue because the increase in spending on an ageing population alone over the next three decades is expected to match the entire GST base. That is $60 billion a year.

But the biggest challenge facing politicians is convincing voters of the need for long-term, broad-based changes that package together policies that help balance out winners and losers. When New Zealand increased the GST to 15 per cent in 2005, it cut personal income taxes.

"The sky did not fall in," said John Cuthbertson, the New Zealand tax leader at Chartered Accountants.

John Freebairn, who advised the Henry review, believes a government without narrative is waiting for a crisis.

"Hawke and Keating were really helped by the narrative that we were going to be the white trash of Asia," he said.
The man behind many of those reforms, Ross Garnaut, believes the blame for our state of flux rests not only on political leaders, but the self-interest of voters, business and lobby groups.

"Let us be ready to give credit where it is due," he said.

"If at some time in the future we have a government that is ready to put real effort into analysis of alternative policies that it judges to be in the public interest, let's not rush to shout it down simply because the policy does not fit our private prejudices."

After a decade of inaction, we may already be too far down the Rubicon. Ernst and Young have called for tax reforms to be taken out of the hands of politicians and given to an independent tax reform commission.

In September, a parliamentary committee recommended the government undertake *another* review of the tax system by 2022 despite a perfectly good one still sitting in the bottom drawer.

It's time to get on and do it.