IPTI Xtracts

Property Tax and Assessment News from Around the World

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NSW finances face a serious squeeze unless radical action is taken

Falling property market means NSW government will need to find ways to strengthen finances

A new report by the Sydney Policy Lab at the University of Sydney reveals that any incoming NSW government faces a difficult fiscal situation, potentially threatening funding for public services.
The report also outlines two new options to improve the fiscal situation in NSW: broadening land tax and treating more public expenditure as an investment rather than a cost.

The falling property market in NSW is projected to see a drop in the largest source of state government revenue, stamp duty. Budgeted revenue from stamp duty has been downgraded by $9.5 billion between 2017/18 and 2020/21, fuelling concerns that fiscal tightening is on the horizon.

In these dampened economic conditions, the incoming NSW Government will need to find new ways to fund their election promises, the report says.

“The NSW Government needs to future-proof its budget for a post-housing boom economy. The recent housing market slowdown has exposed the over-reliance of the state government on revenue from stamp duty,” report co-author Dr Gareth Bryant said.

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Released today, the report makes two recommendations to increase revenue and strengthen finances in NSW while working within the constitutional constraints placed on state governments in relation to taxation.

The two options are a broad-based land tax to cover owner-occupiers and budget innovation to extend the treatment of investments to cover public services.

Broadening land tax

The value of untaxed residential land in NSW has now reached about $1 trillion.

The report, 'Squeezing Services? How the NSW Government can overcome its new fiscal constraints', argues for the broadening of land tax arrangements in NSW to cover owner-occupied homes.

"The NSW Government can no longer ignore the wealth stored in owner-occupied land as a stable, fair and efficient source of revenue," co-author of the report Emeritus Professor Frank Stilwell said.

"A broad-based land tax with appropriate safeguards would fund reductions in stamp duty for home owners and provide additional funding for schools and hospitals. With so many people locked out of home ownership altogether, removing owner-occupied exemptions would also promote fairness in the tax system."

Budget innovations

The report also points to reforming state budget processes to extend definitions of 'investment' - currently being used to deliver privatised infrastructure - to also include public services.

Current budget processes view public services in terms of cost only, rather than future benefits.

Conversely, spending on infrastructure is considered an investment, not a cost, because it delivers future income from user payments and asset sales.

Budget innovations can unlock fiscal space by accounting for public services as investments that deliver returns back to the government, such as via savings to the real budget costs of social disadvantage.

"To really fix the NSW budget, the government needs to completely overhaul the way it imagines spending on public services," Dr Bryant said.

"Major infrastructure projects like WestConnex avoid fiscal constraints because they are defined as investment in a private asset, rather than a budget cost.

"Currently, governments see public services such as health and education as a cost, when they should be treated as an investment in the future. With innovative budgeting, the government could invest in nurses and teachers at interest rates currently reserved for toll roads."

"Behind the scenes, politicians of all parties will tell you that they're worried about the future of the public finances in NSW. But there's not been much talk of that in the current state election. How are we going to continue to fund great public services, like schools and hospitals in the future?" Professor Marc Stears, Director of the Sydney Policy Lab said.

"The Sydney Policy Lab is proud to have commissioned this bold and imaginative report that presents innovative new ways of supporting our public services long into the future. We hope whichever party ends up in government will take its findings seriously."

More landmark city buildings valued at just $1

A flood of iconic Melbourne heritage sites are now worth as little as $1 after their owners successfully disputed their value in the wake of a controversial planning tribunal decision.

The upmarket Intercontinental Rialto Hotel at 495 Collins Street is understood to have joined a growing list of noteworthy heritage sites with nominal values.

The Intercontinental's historic facade, at the property controlled by specialist property fund SB&G Hotel Group, is ranked 40th on the Victorian Heritage Register.

Another city landmark believed to be valued near $1 is the dazzling, 124-year-old National Trust-listed Block Arcade in Collins Street.

The legal loophole was confirmed by a controversial decision of the Victorian and Civil Administrative Tribunal which allows owners of multimillion-dollar heritage buildings to avoid paying land tax by having their site's value slashed to as little as $1.

The state government has vowed to close the loophole but property owners say the decision provides a genuine way to compensate owners for care of historic buildings.

The Block Arcade was acquired for $80 million in 2014 by the wealthy Cohen family, the former owners of the Godfrey vacuum chain. It was built in 1892 modelled on the Milan Galleria Vittorio in Italy and has been maintained in mint condition.

"The Block Arcade is today as it was in 1892," Arcade manager Grant Cohen said.

"These historic buildings are so significant to the fabric of Melbourne that to keep them in that order comes at a significant cost. It doesn't come cheap and that has to be recognised," he said.

Mr Cohen would not confirm the Arcade's value. "We came to an agreed value," he said.

The tribunal's December decision found the sprawling General Post Office in Bourke Street - an 8000 square metre shopping space in the heart of the CBD - was worth just $1, overturning the state Valuer-General's assessment of $29 million.

The Tribunal's decision will deliver the GPO's owner - Australia's largest industry super property fund ISPT - a $650,000-a-year windfall in averted land tax.

Melbourne City Council has since confirmed seven other city landlords, who had appealed against the council's valuation of their properties, have settled their claims following the decision, significantly reducing the value of their sites in the process.

Two of the seven saw their values slashed to as little as $1. The others were also "significantly less" than what they were previously, the council said.

"These appeals were awaiting the GPO decision. Due to privacy considerations, we will not identify the buildings," a council spokeswoman said.

Fitzroys associate director and valuer Chris Nicodimou said structures with a part heritage listing would present challenges for authorities trying to determine their site's value. Nevertheless, they were also likely to get a nominal $1 value, he said.

A long list of historic buildings, including 333 Collins Street, Flinders Street's Rendezvous Hotel, 1 Collins Street, 345 Collins Street, 100 Queen Street, Myer Emporium, David Jones' Bourke Street store, 170 Russell Street and the Nylex site in Cremorne, among others, were in either in VCAT awaiting decisions, or under objection, he said.

The string of lower valuations will deprive Victoria of millions in tax revenue at a time when dwindling receipts from property transactions are hitting treasury's coffers.

In an unusual move, the Tribunal's decision also included a scathing observation about the valuation act, saying it was "inelegantly drafted", anachronistic and in need of reform.

Mr Nicodimou said his firm had successfully argued the Duke of Wellington's site in Flinders Street should be halved in value from the Council's original $9.6 million estimate.

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“The basis for the reduction was that the heritage registered part of the land was of nil value given the now-accepted GPO principle that the cost of the existing heritage building exceeded the market value of the property," he said.

The remainder of the site had a reassessed value of $5,295,000.

The Valuer-General, usually the ultimate arbiter of a property's value, prefers a valuation approach more common in NSW which recognises a property's commercial potential despite its heritage restrictions.

Your views: on tweaking tax policy, and improving public transport

Today, readers suggest improvements to the state’s tax system, and why investing in public transport makes financial sense.

This article seems to be based on the premise that the system is firstly closed, and secondly is working at peak efficiency. That is, a reduction in the tax rate means that there is a resultant correspondent decrease in tax revenue, and that a decrease in tax revenue will result in an equivalent dollar value reduction in services.

In relation to the second part I’m sure that we can find efficiencies in practices, improvements in technology, and review or replacement of redundant procedures to improve services without a cost increase, and conversely maintain services with a reduced financial input.

I’ll use land tax to illustrate the first part of my comment. Land tax rates in SA are in effect the highest in the country, both in absolute terms and the value point at which the top rate cuts in. The top rate which applies to aggregated land value of a little over one million dollars is 3.7%.

On many older inner city, inner suburban and beachside locations the land value is by far the major component of the property value.

Typically this is the kind of affordable housing that students or unemployed people share. Gross rental return on this type of property would generally be below the top rate of land tax (let alone local government and interest charges). Given the top rate and the cut in thresholds which apply interstate (in Queensland for example top rate of 2.5% cuts in at $10 million) this makes investing in these types of properties totally unattractive in SA.

If taxation policy in SA were successfully used as a tool to make the state an attractive place to invest in, total revenue could well increase even though the applicable rates were reduced.

Whilst the reductions in land tax rates to be introduced in SA still leave us with the highest rates in Australia, it is a step in making the State that little bit more attractive as a place to invest in.

Further steps in this direction may result in a turnaround in the outflow of investment and will gradually increase the size of the pie and potentially the total tax revenue available to the government. – John Wyk

Improve public transport and encourage commuters to leave the car home

Commenting on the story: Adelaide’s public transport users need a more powerful voice

As a full time public transport user for over 10 years, Adelaide feels like a city made for cars.
Since moving to the western suburbs last year, I have noticed that options are greater and services more frequent than in the Northern suburbs, but the problems are the same.

Lack of cross suburb services, no after midnight services except on Saturdays, infrequent and in some cases non-existent daytime weekend services, new train stations added and peak services cut at stations in between with commuters advised to drive to already full car parks at a more frequent station in order to make their daily commute. This is just the tip of the iceberg.

None of this encourages people to catch public transport, despite the fact that this would reduce road congestion, help families save money on petrol and parking, and, shock horror, even reduce our emissions.

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Who does this lack benefit? Certainly not the average Adelaidean. – Anne Warman

What is public transport? Our roads are public property and are designed for transport. The vehicles are 99.9 % private and this is where the problems start. The problem is not that the roads are popular to use, it is that the vehicles are too large, too inefficient and too polluting.

There are too many users, mostly single occupant, so exclude other more efficient modes – buses and bikes.

If a bikeway network was superimposed on our road network, that too is public property for private individuals 8 to 80 years to use.

Here the vehicles are ultra efficient, just 16% of the size, clean, improve mental and physical health and improve business trade, with a very low impact.

With congestion ever growing it is only viable to seek public transport opportunities off road. Take Copenhagen. They are just a few million people bigger than Adelaide yet are just putting the finishing touches to a Metro Underground System.

How could they afford it? The first big budget saving was the 43% commuter cyclists. This saved the government over €300 million a year in health costs. Building it brought major street disruption but they always kept a path open for cyclists and so kept traffic moving.

If we are to get more dynamic and efficient transport networks we need to think more holistically and bikes are a good place to start. – Tim Eisemann

The true cost of South Australia's tax cuts

The Marshall Government's approach to taxes and services is all too familiar, writes Noah Schultz-Byard.

Taxation policy has been front and centre of Australian politics in recent years, with debates over company tax, personal income tax and perennial fights like the GST rarely being far from the front pages. But most of this debate happens at a federal level and relatively little attention has been paid to the substantial tax changes that are taking place at a state level in South Australia.

That is unfortunate, because while the numbers are bigger for federal taxes, it is state governments that generally deliver services like health, education and public transport. Any changes to state taxes have a very direct impact on the capacity of governments to staff their hospitals and schools or to employ enough drivers for their buses and trams.

The Marshall Government's first budget, delivered in September of last year, contained a series of changes to the Emergency Services Levy, payroll tax and land tax.

The land tax reforms will mean that people and companies who invest in property will pay less from June 2020 and were designed in a way that primarily helps those with land worth more than $1.2 million. The Government effectively reduced the ESL, which is paid by homeowners, and cut the amount of payroll tax being paid by small businesses.

Collectively, these tax cuts are predicted to reduce government revenue by approximately $613 million over the next four years. While tax cuts sound appealing, the question that must be asked is how will public services be maintained, given the revenue shortfall? The answer so far seems to be that they won't.

The State Government has already announced significant cuts to education, public transport and other services. Seven TAFE campuses are going to be shut down and Service SA centres in Modbury, Mitcham and Prospect will be closed. The amount of money going to public transport services has also been cut by $45 million and 4000 jobs will be axed from the public service.

Additionally, while land tax on investors' properties will go down by $96 million over two years, some of the state's poorest citizens will be forced to pay more as the rent for their housing trust homes goes up.

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It's pretty obvious what's happening here – taxes have been reduced for some South Australians while services have been reduced for others.

We've seen all of this happen before, on a larger scale, at the federal level. Howard era treasurer Peter Costello cut income tax each year from 2004-05 to 2007-08, benefiting the richest 10 per cent of Australians more than the bottom 80 per cent combined and reducing government revenue by $169 billion over a decade. It was these cuts that led to the "emergency" that supposedly justified huge cuts to services in the Abbott Government's 2014 federal budget.

Undeterred, the Turnbull Government then went further, legislating another tranche of personal income tax cuts in 2018, at a predicted cost of $144 billion over the next 10 years. Australia Institute research showed that, once again, the majority of the benefit will go to the wealthiest Australians. Someone earning $40,000 per year will get an annual tax cut of $455 while someone earning $200,000 will get a benefit 16 times larger – a tax cut of $7225.

Rearranging taxation settings to disproportionally benefit already wealthy people is a choice governments are entitled to make. But it needs to be recognised that choosing to forego revenue will have a lasting effect on whether our governments can afford to deliver the public services that many rely on.

The Turnbull Government had also planned on delivering a company tax cut for the largest corporations in Australia, which would have cost the federal budget $65 billion over 10 years. After Senators baulked at having to explain to voters why they would deliver a $39.5 billion benefit to the big banks, and likely necessitate future cuts to public services, the corporate tax cuts were abandoned.

This loss in the Senate, along with other electoral examples, shows that public opinion on taxation and the delivery of services might be changing. Beyond strong public opposition to federal company tax cuts, the now re-elected Andrews Government went to the last Victorian election promising not tax cuts, but a wide range of increased services. The ACT Government, too, has remained in power while implementing a long-term policy of increasing land tax to phase out other taxes and pay for popular policies such as a move to 100 per cent renewable energy.

These results point to a growing appetite in the electorate for an increase in taxation, especially on those who can most afford it, while improving the quality of services being delivered.

Which brings us back to South Australia.

With the next state election still three years away, the Marshall Government has time to implement substantial changes to taxation and service delivery policy. How these changes are formulated, presented, debated and received will have a significant impact on the development of our state.

While there's no right or wrong amount of tax that should be collected, or services provided, South Australians should seriously consider what sort of a society they want because the decisions we make today will have effects that last for generations to come.

Noah Schultz-Byard is the SA projects manager at policy think tank, The Australia Institute.

Off-the-plan apartment buyers slugged hundreds in land tax

Off-the-plan buyers have been stung with bills for hundreds of dollars due to new laws that were supposed to improve housing affordability.

Empty properties in Canberra began to incur land tax from July 1 last year, a policy designed to stop landlords sitting on vacant property, thus freeing up housing in an increasingly tight market.

Before, only rented properties attracted land tax, while homes that were the owner's principal place of residence were exempt from the charge.

But since the tax was rolled out to all vacant properties, buyers and developers alike have been stung with unforeseen charges.

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Solicitor David Claxton said one of his clients received a bill for $500 - an entire quarter's land tax - because their certificate of occupancy came through in late September and they settled on October 11.

"The reason they had to pay was because it was vacant the first 10 days of the quarter, which they had no control over and it wasn't law when they entered into the contract," Mr Claxton said.

"That buyer has no way of influencing when a matter settles. All of those contracts expressed that settlement will occur within 14 days of the registration of the units' plan. As far as I'm concerned, this is nothing more than a money grab from the government."

He said there were 200 buyers in that complex affected by the changes, and the government had thus far refused to waive the charge.

"If you average that out for $500 each unit, that's a $100,000 windfall for the government and those owners get absolutely nothing for it," Mr Claxton said.

In another "even worse" case, Mr Claxton said his client's unit plan was registered on December 17, which meant they had to settle by January 31 "when everything is closed".

They ended up settling on January 9, but were hit with an entire quarter's land tax as well - $440.

Mr Claxton said the government should introduce apportionment for land tax, so people are charged an amount proportional to the period the property is vacant.

"What is the justification for charging an owner an entire quarter of land tax when the liability exists by virtue of 10 days non-occupancy? What is the rationale for that? Nobody in the government can seem to give us an answer," Mr Claxton said.

For developers, there used to be a two-year exemption from land tax which gave them time to build, sell and settle properties. That exemption was abolished when the new laws came in.

Master Builders Association ACT chief executive Michael Hopkins said his members were "surprised" when they started receiving bills in November last year, and the association was working with the government to try and find a solution.

"We will be calling for the type of exemptions that existed previously to be reinstated. We do believe this charge was an unintended consequence of recent changes," Mr Hopkins said.

An ACT government spokeswoman said the ACT Revenue Office was monitoring the implementation of the land tax changes and "will work with stakeholders to ensure its effectiveness, and manage and clarify issues that arise".

She suggested that in certain circumstances builders would be better off, as the legislation created a new exemption that applied for land that was unfit for occupation, but without the time limit.

"This can be of greater benefit to builders and developers. A parcel could be exempt for more than two years, before a certificate of occupancy is issued. Further, the exemption is no longer limited to builders and developers who are corporations," she said.

However Greens crossbencher Caroline Le Couteur acknowledged the legislation had come with some "unintended consequences".

"The Greens intend to raise this issue with the government to ensure that it can also be rectified in some way with the current revenue protection bill that is addressing other unintended consequences," Ms Le Couteur said.

Government vows to fix 'unintended consequences' of vacancy tax

The ACT government has promised to fix the problem and waive the charge for affected buyers

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Off-the-plan buyers who were hit with bills for hundreds of dollars due to the new vacancy tax will be reimbursed, after the Barr government acknowledged the charge was an "unintended consequence".

Empty properties in Canberra began to incur land tax from July 1 last year, a policy designed to stop landlords sitting on vacant property and improve housing affordability.

But the extension of the tax has led to unforeseen complications.

One property owner who reached out to The Canberra Times said her tenants moved out on January 2 and she moved in on January 3, but she was charged a full quarter's land tax - $1900.

Another woman said she was charged $450 in land tax after her off-the-plan apartment settled on October 4 last year - four days into the quarter.

She was a first home buyer who'd purchased the property in March 2017, well before the vacancy tax legislation passed.

"I was effectively charged an investor tax before I even owned a property. I qualified for the first home buyers grant, clearly I'd never owned a property. This completely came out of the blue for me," she said.

Solicitor David Claxton has been trying to get the charges waived for several of his clients but said the Revenue Office even refused to acknowledge the minister had discretion in remitting part or all of land tax under the legislation.

But late on Tuesday, an ACT government spokesman said the government would fix the problem "as a priority".

He said "any unintended consequences from this legislation be addressed and charges will be waived".

The promise came after heavy criticism for the way the policy had affected home buyers.

ACT Opposition leader Alistair Coe said people should not have to foot the bill for an entire quarter if their property has only been vacant for a few days.

“When you have a tax regime designed to hurt everyday Canberrans, you have to ask who is this government for. It’s policies like this that makes living in Canberra harder and harder for so many people," Mr Coe said.

“This sort of revenue raising practice adopted by Labor is akin to the ‘fee for no service’ scandal, highlighted in the banking royal commission and widely condemned by Australians.”

However retired solicitor Peter Waight, who spent 38 years working in conveyancing, said it was likely "just unfortunate and unintended consequence which ought to be looked at by government".

Nevertheless, he described the situation as "absolutely bloody ridiculous" and "absolutely inequitable".

He said there was another problem that arose when a tenant moved out in one quarter and a buyer moved in during the next.

While there is an exemption if an owner moves in to make the property their principal place of residence within three months of the tenant vacating, Mr Waight said the Revenue Office had taken the inexplicable view that only applied to the existing owner and not a buyer and had sent the new owners a land tax bill.

"It shouldn't matter if the owner moves back in after three months or a new buyer, the gap is the same," Mr Waight said.

He said the new provisions also did not give people enough time to settle property.

"The problem is when people move out immediately because they have to move interstate for a job or something, they're only given the rest of that quarter and the next quarter not just to sell but to settle," Mr Waight said.

Between the time it took to list the property, get builders reports, find a suitable buyer, exchange contracts and get finance, Mr Waight said the process could be lengthy. If the seller moved out just before the end of the quarter, it would mean they would have a little over three months to complete all that.

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"A six-month period would be fairer," Mr Waight said.

He also said there was a question mark hanging over what happened when people went on extended holidays, particularly in the case of grey nomads who hit the road for 12 months at a time.

"They may have lived in the house for decades but the question is when does it stop being their principal place of residence? It's not in the legislation," Mr Waight said.

He also suggested these people may be more reluctant to let their property out now due to changes to tenancy laws that give renters greater rights to have pets.

"A retiree coming back to their property might be very reluctant to let in that sort of situation," he said.

Commercial rates increase an issue of fairness

The revelations from last week's commercial rates inquiry resembled, at times, something close to Kafkaesque comedy.

"This Canberra pub's rates bill went up $60,000 in five years," said one headline. "From $100k to $1.4m", said another. The numbers sound ludicrous, but this is no joke.

There are rates increases, and then there are rates increases. In the case of several Canberra businesses, there are increases that are downright unsustainable. In the case of the owners of the office space rented, ironically, by the actual ACT Valuation Office, rates skyrocketed from $100,000 to $1.4 million in just three years, after a revaluation of the land.

The owner's finance manager described it as "grossly unfair", especially as the building owners had delayed redevelopment while the government's new office building was still under construction.

The unfortunate pub referred to in the other headline, the Duxton in O'Connor, has, not surprisingly, found it difficult to absorb the massive increase in rates. The owner has pointed out that the extra costs are risking the viability of his small business.

"Coupled with the rising cost of electricity and wages, the costs of doing business are too great," he says.

Only a week or so ago, Chief Minister Andrew Barr was lauding Canberra as a better place to do business (than, say, Queanbeyan) because of the territory's high payroll tax threshold. But this assertion has become hard to defend throughout this inquiry, as the benefits of this high threshold are being increasingly eclipsed by any accompanying rates increases.

One of Barr's own predecessors, Kate Carnell, who is now the Australian Small Business and Family Enterprise Ombudsman, has pointed out that these inflated bills are appearing at a time when the market is relatively flat, both in Canberra and elsewhere.

"Nobody is running around at the moment saying in the ACT people are making a large amount of money in their retail or their restaurants or their cafes or whatever," she says.

Her office has also pointed out that the rates increases are affecting business loans, with fewer being approved for small businesses with new money worries.

They may come from opposite ends of the political spectrum, but Barr should pay heed to what Carnell is saying. His assertions that Canberra is a good place to be a small business owner are undermined by the concerns currently being aired through the inquiry.

Governments have the right to make the most of their land, to extract revenue and plan accordingly. But businesses have the right and the need for certainty, especially those in the middle of long-term leases, struggling to find their footing in this "relatively flat" market.

Barr himself has already admitted charging such steep rates hikes - with just 28 days to pay - is an "issue of regret", but has continued to defend his tax reform.

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Ultimately it is an issue of fairness. Canberra is a growing city that still depends, perhaps too much, on government revenue. Let’s protect our small businesses and allow them to thrive. Otherwise, we risk shutting them out, and forcing them across the border.

From $29m to just a dollar, how the GPO's value fell at the stroke of a pen

The site of Melbourne’s famous GPO – with its soaring heritage building, nearly 8000 square metres of shopping generating millions of dollars in rent, and a location in the heart of the city – is officially worth, wait for it, just $1.

That’s the verdict of a planning tribunal that has ruled against Victoria's Valuer-General, who had argued the site on which the 160-year-old building sits was worth $29 million.

The victory will deliver the GPO’s owner – Australia’s largest industry super property fund ISPT – a $650,000-a-year windfall in averted land tax and has sparked immediate calls for reform.

The GPO, occupied by Swedish fast fashion giant H&M, is in the beating heart of Melbourne's golden mile of retail real estate, the Bourke Street Mall.

H&M pays ISPT $7.2 million a year for the tenancy rights to sell its cheap and cheerful clothes to throngs of young shoppers who congregate in the mall.

But the 19th-century GPO's hallowed halls are not the only historic Melbourne building likely to be given a nominal $1 valuation this year, thus avoiding land tax.

A quirk in Victoria's valuation rules applying to heritage-listed properties could see a number of the city's wealthiest landlords successfully dispute their assessments.

ASX-listed property giant GPT has objected to the council's valuation of one of the city's most profitable and, on its own books, valuable office towers.

It owns the $284 million, 34-storey building at 100 Queen Street, which is home to ANZ Bank offices as well as a collection of some of the city's most important historic buildings.

Another landlord appealing their building's valuation is the wealthy Cohen family, former owners of the Godfrey vacuum chain. They own the architecturally dazzling, 124-year-old heritage property The Block Arcade in Collins Street, which they acquired for $80 million in 2014.

Also up for review is another blue-chip site, the Intercontinental Rialto Hotel at 495 Collins Street. The building's facade is ranked 40th on the Victorian Heritage Register.

Across the state every two years all properties are given valuation notices by local councils to determine the rates and land tax their owners will pay.

Complex valuation formulas calculate how much tax should apply on a site's "highest and best use" value, not on the "capital improved" buildings on the land.

The rules apply equally to the city's most valuable buildings, with some exceptions. Melbourne City Council gave ISPT a rate notice in 2016 for the GPO that valued the site at $14.8 million – on which land tax would be assessed – with a "capital improved" value of $71.5 million.

A contrived valuation that bears no resemblance to the market or the real-world when the underlying dispute is really about land tax

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ISPT objected, saying the GPO's site was worth $1 as its heritage status meant it couldn't be developed for a higher and better use.

The property fund used valuers m3property to determined the GPO's value. The group's director Grant Jackson said their valuation used the most common industry "hypothetical development" approach to come up with the $1 figure.

ISPT took the dispute to the Victorian Civil and Administrative Tribunal, where the Valuer-General intervened saying the council's valuation was "flawed and unreliable", instead putting a value on the site of $29.1 million.

But the Valuer-General, usually the ultimate arbiter of a property's value, was overruled because his office applied a valuation approach more common in NSW, which recognises a property's commercial potential despite its heritage restrictions.

Tribunal members Mark Dwyer and Justine Jacono ruled in favour of ISPT's $1 valuation, but said in a scathing observation the valuation rules were "inelegantly drafted", anachronistic and in need of reform.

"It is forcing parties into complex and costly litigation about the artificiality of a contrived valuation that bears no resemblance to the market or the real-world when the underlying dispute is really about land tax," they said.

Mr Jackson said the property industry was surprised the tribunal was "offering gratuitous advice" about regulation. "They're there to decide on the evidence a matter of law," he said.

Valuer-General Robert Marsh told The Age and Sydney Morning Herald the laws needed updating.

“There’s probably a need for the legislation to change to create more clarity and certainty around the approach to valuation of heritage properties,” he said.

“That was the view my office took and it [the GPO] should be valued accordingly.”

'Simplistic' rates system discouraging mixed-use development

The ACT's tax laws have failed to keep up with modern developments, a parliamentary inquiry has heard, amid calls to introduce apportionment to the commercial rates system.

Developers have also warned of a "wave" of people "disillusioned" by the rising charges taking their money to other jurisdictions, on the fifth day of hearings into the impact of commercial rates hikes.

Valuer Stephen Flannery, who was part-owner of a Braddon building that had to be sold after the owners were hit with five years' worth of rate bills in one go and were given 28 days to pay, told the ACT Assembly's Public Accounts Committee the way the system classified land as rural, commercial or residential was "way too simplistic".

"Unless a property is 100 per cent residential or rural it’s deemed to be commercial," Mr Flannery said.

That's becoming more of a problem in Canberra, as the government seeks to encourage more mixed-use properties to come online.

Unlike other states, the ACT has no system of apportionment, in which the percentage of the land that is being used for each category is taken into account.

The Australian Property Institute previously told the committee the ACT's approach was "inequitable and discourages mixed-use development".

Evri Group, who told the committee the government has effectively forcing them to develop a property into a mixed-use development in order to realise the $24 million valuation it gave them, have also called for rates to be apportioned, instead of assessing the entire developable gross floor area on one category.

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Colliers International state chief executive Paul Powderly said the "elephant in the room" was the fact the Valuation Office was raising the value of commercial land because its highest and best use had become residential, only to then apply a commercial rating factor to it, which is four times higher.

"I've seen people's rates bills go from $300,000 to $1.8 million just because we've changed the way [we apply rates] ... we apply the commercial rate on the dollar but we've used the residential value to get the highest value of the rate. That's not on," Mr Powderly said.

"Let's make the system a little more transparent and equitable so people can see if their value is $80 million because [if] it's based on all this residential units then they should be paying $80 million on a residential site, not on it being a commercial site worth $80 million."

Mr Powderly also suggested that "if you can't access the development rights, you shouldn't necessarily be paying rates on them", referring to cases where the best and highest use of the land had changed, but the land owner could not unlock it because they had leases in place.

'Wave' of disillusioned investors

The committee was also warned of the chilling effect the increased charges would have on investment in the city.

Peter Sarris said his family has been in property in Canberra for 55 years and he felt they were being "pushed out".

His rural block at Pialligo was reclassified as commercial once he put in an application to vary the lease to allow a vet hospital, taking its rates bill from $13,000 a year to $44,000.

He also owns a stake in 220 Northbourne, and its increase from $100,000 to $1.4 million in rates made him lose sleep for "many a night".

"The wave is coming, in my opinion, where you'll see people disillusioned with how erratic these values are," he said.

"Every hundred thousand dollars of rates equates to a million, million-and-a-half off the valuation.

"There's nothing investors like more than certainty and when you just throw up 1400 per cent increases at a whim … I just think that invokes a lack of confidence."

Mr Sarris said the abolition of stamp duty on commercial properties worth less than $1.5 million was cold comfort.

"These guys already own the property. The fact is the rates equal stamp duty year-on-year, and no other jurisdiction I know is even close to that," Mr Sarris said.

Mr Powderly said the rating system needed to be able to respond to external influences, singling out the Coalition government's decentralisation agenda as another threat.

"I think we need to be very careful that the nation's capital is here for one reason - to really serve Parliament - and we need to make sure we've got the most cost effective office market in Australia so that we don't have this conversation about decentralisation and Canberra is seen to be the most competitive and we do take departments from Sydney and Melbourne to Canberra because that's really what we want," he said.

Should the ACT Valuation Office be independent?

The committee also returned to the question of whether the ACT Valuation Office should be made independent.

Previous hearings were told the office was only brought in-house when the Commonwealth valuation office shut down (Mr Powderly revealed he had a hand in bringing those valuers into the ACT government "rightly or wrongly" as part of his previous role as Australian Property Institute president).

But Clayton Utz partner Alfonso Del Rio, a "reluctant" witness called upon to give evidence in a personal capacity because of his experience dealing in these matters, said he had serious misgivings about the arrangement.

“Purely from a governance perspective, the fact you have one body that reports purely to the person that is there to raise the revenue I see as [a matter] of fundamental concern," Mr Del Rio said.

Mr Powderly suggested the issues could be resolved by making it easier to dispute property valuations, rather than splitting the Valuation Office away from Treasury.

"Having to go to ACAT and the Supreme Court is not a cost-effective way to deal with small discrepancies and differences of opinion in annual rating matters," Mr Powderly said.

New Property Council head wants more transparency in setting of rates

The new president of the ACT Property Council has called for greater transparency in the setting of commercial rates, saying the uncertainty is hampering businesses ability to make decisions about their future.

Village Building Group chief executive Travis Doherty has singled out commercial rates as the "most pressing issue" facing the property sector as he starts his two-year term at the helm of the lobby group.

Mr Doherty said rates were causing "real concern" for property owners, referencing a recent case in which a widowed retiree had broken down in front of a Property Council member as she described how her retirement funds had been slashed by a ballooning commercial rates bill.

He said the Property Council agreed with premise of the ACT government tax reforms, but believed there was a "better way to do it".

"What our members are telling us is the process for determining rates is not transparent enough and the ability to have them back-dated is causing real concern and anxiety, as is the sheer increase [in rates bills]," Mr Doherty said.

"We think there can be more transparency in determining unimproved values ... perhaps an independent body to assess rates increase, or look at capping them."

Mr Doherty's call echoes statements from the Real Estate Institute of the ACT's Guy Randall, who this told month the ACT assembly's commercial rates inquiry that the territory needed an independent body to set rates.

"Nobody in the industry is unwilling to pay their fair share of taxes and charges," Mr Doherty said.

"But it's when your ability to predict and model that, and factor it in to your upfront investment decisions, [is impaired] that's when it becomes enormously challenging. We hear our members saying that they are walking away, or letting opportunities go, because there is too much uncertainty. That is happening right now."

Speaking with The Canberra Times on Tuesday afternoon, Chief Minister Andrew Barr said the government was providing more clarity on future commercial rate rises than it had before the start of its tax reform program.

But Mr Barr said the length of parliamentary terms meant it was difficult to make projections beyond five years.

Mr Barr again defended his government's policy, which focuses on phasing out some taxes in favour of higher land taxation.

"I understand that no one likes tax, but I don't have many options to raise revenue," he said.

"The alternative is that we have to spend less on health, education, transport, and community services because the reality is that we have such a narrow revenue base here in the ACT."

ACT Property Council executive director Adina Cirson was scheduled to appear before the assembly's rates inquiry on Wednesday, coinciding with the unveiling of Mr Doherty as the lobby group's new president.

He succeeds George Katheklakis, who filled the president's position for four years.

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"Travis brings not only his experience of leading Village Building Company, but 25 years' experience in executive leadership positions across a range of industries including property development and construction, financial services, manufacturing and professional services," Ms Cirson said.

Lendlease senior development manager Arabella Rohde and Amalgamated Property Group's Phil O'Brien were also elected vice presidents at a Property Council meeting earlier this week.

In addition to the commercial rate debate, Ms Cirson said the Property Council would this year focus on calls for the creation of a long-term infrastructure plan for the Canberra region.

The group also wanted to work with the National Capital Authority as it finalises new planning rules for Northbourne Avenue and Federal Highway as part of the City and Gateway framework, she said.

ACT Valuation Office raised own landlord's rates bill to $1.4 million

The ACT Valuation Office's own landlord has labelled the territory government's increases to commercial rates as "grossly unfair", after rates on the office's own block skyrocketed from $100,000 to $1.4 million in three years following a revaluation.

Evri Group has owned 220 Northbourne Avenue in Braddon since 2000, and has had the ACT government as a long-time tenant.

Finance manager George Cassimatis told an ACT Legislative Assembly inquiry the group did the government a favour by putting off a planned redevelopment of its Macarthur Avenue intersection block until the government's new office building next to the ACT Assembly was built.

Then the Valuation Office turned around and revalued the block from $5.88 million to $24 million, pushing the group's rates bill from around $100,000 to $634,000. Their 2018 bill rose to $1 million and increased again to $1.4 million in 2019.

The valuation was later reduced to $21 million through an ACAT appeal, although the legal and expert report costs will soon outstrip the savings they made on their rates bill.

"It's grossly unfair in my opinion that the government can do that," Mr Cassimatis said.

"We've done the government a favour and said 'you can stay here for a few more years until your building's done', and then they've turned around and said 'your rates have gone from here to here, thanks for that'."

During another day of evidence about the impact of the government's recent hikes to commercial land taxes on businesses and landlords, Mr Cassimatis said his company felt pressured to turn its Braddon office block into an apartment block, despite the market being flooded.

The group's hands are also tied until the government's lease expires in November 2020, meaning it has to wear the charge for another year.

"In effect the government is forcing us to redevelop the site. They're telling us we have to build something there," Mr Cassimatis said.

"The only way you can save money is by lodging a DA, and they're fast-tracking us to do a DA, which is not going to have a beneficial outcome for anyone."

Evri Group's submission said it was "odd" that the ACT Valuation Office seemed to be advising Evri Group on what they should develop on-site.

"ACT Valuation Office have indicated numerous times that we should develop 36,000 square metres of apartments and excavate a three-level basement car park. It has also been suggested that a mixed-use development is built on the site. Given there is not one single successful mixed-use precinct in along Northbourne Avenue, one has to wonder why the ACT Government wants Evri Group to build one on this site? It is a costly gamble to take," the document reads.

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The group also said the valuation office had suggested it build 400 apartments on-site and provided advice on ceiling heights.

"If we want to develop a good quality apartment product that has ducted heating/cooling, then a floor-to-floor building height of three metres is recommended. ACT Valuation Office kept insisting that we could do this with 2.7 metre floor-to-floor heights. ACT Valuation Office should seek professional building advice to confirm this is achievable and actually provide the evidence to the ratepayer and justify their calculations."

It's not the only way the charge is putting businesses under pressure.

Australian Small Business and Family Enterprise Ombudsman and former Liberal chief minister Kate Carnell said the inflated bills came at a time when the market was relatively flat, and were directly hitting businesses' bottom lines.

"In the cases where it has been possible for landlords to pass on the significant increase in commercial rates to their tenants, the issue then becomes for small business a pretty flat environment in terms of hospitality, restaurants, and retail; the capacity to pass onto consumers is really low," Ms Carnell said.

"Nobody is running around at the moment saying in the ACT people are making a large amount of money in their retail or their restaurants or their cafes or whatever."

Ms Carnell also challenged ACT Chief Minister Andrew Barr's testimony last week that ACT businesses were better off because of the territory's high payroll-tax threshold.

"The majority of small businesses don't pay payroll tax even in NSW and with the NSW government announcements of reducing payroll tax that will become even more so, so I don't accept that's an argument to suggest that it is reasonable to have commercial rates that can be 10 per cent of what they are in the ACT in Queanbeyan," Ms Carnell said.

"We compete directly and we have to take that pretty seriously."

The part-owner of the Duxton pub, David Quinn, told the inquiry that the savings he made on payroll tax - $34,000 - were nowhere close to the increase in his rates bill. The pub's rates have risen by $60,000 in five years.

"I'm still worse off," Mr Quinn said.

The ombudman's principal advisor, Anne Scott, also said the rate rises were having a flow-on effect to the amount of money banks were willing to loan businesses, and came at a time when the big four were already cracking down on lending practices.

"There's a definite drop in the number of new loans that are being approved for small business," Ms Scott said.

She said it was largely small businesses coming to the end of their loan facility period that were finding the "door is shutting on them" because their revenue was no longer high enough.

"When we ... increase pressure on the business, either through the rates directly or the transfer of the rates to that business's overheads, then there's even more reasons for the banks to not continue finance arrangements with that business," Ms Scott said.

"We're seeing small businesses now, their loan facilities being closed to them which means their business will fold."

ACT rate rises heading for 'tipping point', business groups warn

The ACT business sector has warned rising rates will soon hit a tipping point and deter investors.
The warning comes amid calls for an independent valuation office in the territory.
The business chamber and property council have also urged a review be initiated into commercial rates.

Canberra's peak property and business groups have warned the ACT is heading for an economic "tipping point" due to continual increases in commercial rates, amid calls for a major review of the system.

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The presidents of both the ACT branch of the Property Council and the Canberra Business Chamber told a Legislative Assembly committee inquiry into commercial rates on Wednesday that a taskforce needed to be set up to review the system.

The committee is looking into numerous claims of valuations sending rates bills for commercial property owners soaring across the city, with witnesses also raising concerns commercial rates are charged at nine times residential rates.

Outgoing ACT Property Council president George Katheklakis and business chamber president Archie Tsirimokos separately told the inquiry a taskforce needed to be set up to review the commercial rating system, made up of representatives from industry, the government and the wider community.

Mr Katheklakis and Mr Tsirimokos were among several witnesses before the inquiry who also raised concerns the government's tax revenue was more than making up for the 20 year abolition of stamp duty, and owners were facing increases in rates in the order of paying stamp duty every year.

While the reforms were originally touted as being revenue-neutral, Chief Minister Andrew Barr has since suggested they would be broadly revenue-neutral in aggregate over the entire 20-year period of change.

Representatives appearing with the Property Council also backed calls for the ACT to establish an independent, arms-length Valuer-General to conduct valuations - rather than the government - a proposal both the government and opposition have rejected.

Both Mr Katheklakis and Mr Tsirimokos also raised concerns that due to the nature of the territory's commercial property industry, often owners were unable to raise leases to cover increased rates bills and tenants could be attracted to Queanbeyan.

The lack of transparency about rate rises was also a key concern raised during Wednesday's hearings, with owners and the peak industry groups telling the committee owners were facing annual bill shock, as there was no forecast of future years' bills.

Mr Katheklakis said the industry knew it had to pay rates, and expected them to rise each year - but without any forecast, owners could not know what their bill would be from year to year.

He said they were not expecting forecasts to be set in stone, but without any future trajectory of likely bills over the 20-year program, investors would reconsider investing in long-term commercial property in the territory.

"Investors need to have an understanding of where it's projected to go over the longer term; 10, 15, 20 years from now," he said.

"If you don't know rates increases then in three years, they will say we need to make adjustments over the next 20 years of the lease."

Mr Tsirimokos said he didn't believe stamp duty was an impost for commercial buyers, as the tax was deductible, but the rising rates were starting to reach a point at which investors would be reconsidering buying in Canberra.

Similarly, the Property Council's Belinda Ngo said commercial investors needed to know what the final resting place was for rates at the end of the 20-year process.

She said the ACT would soon be reaching a tipping point, where investors would tell the council if rates kept increasing at current rates (about 7.5 per cent per year), they would no longer be able to invest in Canberra.

ACT Property Council chief executive Adina Cirson also said that, should a taskforce be created to review the system, the current increases on commercial rates should be frozen while industry and community could have an open, honest discussion about them.

Richard Snow, the head of property at the Snow family's Capital Property Group, also appeared, making a comparison of the taxes and rates in Sydney compared to Canberra. He said in Sydney land tax and council rates were about 2.6 per cent of the unimproved value of a block.

But he said in the city in Canberra, once rates, land tax, the city-improvement levy and other taxes were taken into account, it came to about 6 per cent of unimproved land value, almost triple the Sydney costs.

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The inquiry continues.

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