IPTI Xtracts

Property Tax and Assessment News from Around the World

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Land tax debate back on as property slump hits states' stamp duty revenues

As the property downturn starts punching billions of dollars out of state and territory government coffers, the debate has been rekindled on whether stamp duty should be replaced by a broad-based land tax.

A recent report from the Sydney Policy Lab at The University of Sydney showed that forecast revenue from stamp duty has been downgraded by $9.5 billion between 2017/18 and 2020/21.

In Victoria, the slowing market is expected to wipe $1 billion from the budget this year, while in Western Australia, Treasury is expecting to lose the same amount, but over the next four years.

The figures prompted warnings from economists that stamp-duty dependent states, such as Victoria and New South Wales, would have to rein in spending as the cash dries up.

Currently, in all states and territories, homeowners must pay stamp duty when they buy a home. The tax, paid in one lump sum is charged on a sliding scale, depending on the sales price.

If a broad-based land tax were introduced, stamp duty could be discarded and owners would be charged an annual levy, around $1500, research from The Grattan Institute shows.

Proponents of the change argue this would create a far more stable revenue for governments, while people would save more in the long run.

The benefits

The University of Sydney's Dr Gareth Bryant said there were three key benefits of implementing a land tax nationwide.

"There are three key arguments. One is that it is efficient. Two, that it is simple and stable and, three, that it's fair," Dr Bryant said.

"In terms of efficiency, economists like land tax because it's levied on unimproved land – the land itself, not the building or other improvements to the land, so it doesn't discourage productive uses.

"Stamp duty revenues are partially to do with the value of the land but more than that, it's about how much land is being bought and sold – so stamp duty benefits from the speculative market whereas underlying land values are more stable.

"They wouldn't go up during booms and down during busts."

Last year, the latest Stamp Duty Watch Report released by the Housing Industry Association showed stamp duty had increased almost three times faster than house prices since the 1980s, totalling $20.6 billion in 2015-16 alone.

How would it look?

In 2012, the ACT began to phase out stamp duty over a 20-year period, replacing it with a land tax. Grattan Institute researcher Brendan Coates says other governments should follow suit.

"The main economic benefit is that people can more easily move around – to bigger or small residences or across cities. They're not currently willing to sell their houses because stamp duty is prohibitive," Mr Coates said.

The ACT has Australia's most efficient tax base – every dollar of revenue raised costs the economy just 21.9 cents while NSW has the least efficient – every dollar of revenue raised costs the economy 29.7¢.

"A low rate broad property levy using the council rates base could raise about $7 billion a year for state and territory governments through an annual levy of just $2 for every $1000 in unimproved land value, or $1 for every $1000 in capital improved values," Mr Coates said.

"Alternatively, replacing stamp duties with a progressive property tax – as the ACT has done. They chose a progressive land tax instead of a flat rate land tax, so properties on high-value land will pay more tax and those on less, will pay less.

"The quantitative revenue will be similar to what we recommend, but we think a flat rate is simpler."

A switch to land tax would leave the economy stronger and boost livelihoods, Mr Coates argued.

"We estimated that Australians could be $17 billion better off a year. It will reduce the deposit hurdle. The average stamp duty in Melbourne is $40,000 – that's a substantial amount of money," he said.

"By making it easier for people to move, it would also free up the excess [housing] stock, and that frees up [eases] house prices by 6 per cent we estimated, in the long run."

The challenge is to raise enough revenue for the government to function, while not affecting those who have purchased property recently or older owner-occupiers who are asset rich but income poor.

"You do that by phasing it out over time. The ACT is doing it over a long period – you'd probably only need 10 to 15 years."

No one likes new taxes

Dr Frank Stilwell, of the University of Sydney, argued that while he thinks a land tax would be a lot fairer on Australians, getting the political gong would be near impossible.

"Any new tax is unpopular, and a tax that can be derided as a impost on the family home is not politically an easy road to go down," he said.

"Stamp duties are the single most lucrative form of revenue for state governments and they have a political acceptability because everyone is used to them. A land tax would be equitable, but it would be political dynamite.

"We've got the possibility of a very good tax base in the land tax, but we can never use it. It's tragic."

ACT government works to re-design 'confusing' rates assessment notices

The ACT government is working to re-design the rates assessment notices that created confusion for some Canberra homeowners by making it appear as though the full year's bill had to be paid at once, rather than in instalments.

Last year, the government issued rates notices with "PLEASE PAY NOW" printed in the top right-hand corner in a large box, along with the total bill for the year.

The various payment options were listed in a less prominent area on the back of the notice.

Residents including Watson man George Gamkrelidze, who wrote to a letter to the editor in The Canberra Times to warn fellow Canberrans, derided the notices as misleading.

ACT Greens treasury spokeswoman Caroline Le Couteur called on the government to make the notices clearer, in a motion brought forward in the Legislative Assembly.

Ms Le Couteur said a major trigger that led people to move from being financially stretched to being in financial hardship was the arrival of bills like rates notices, and it was crucial that payment options were made as clear as possible.

With the motion having passed the Assembly, an ACT government spokeswoman said the government was addressing the issues raised.

The spokeswoman said the government had aimed to make rates notices "simpler and clearer for Canberra homeowners to read and understand" with the change in format last year.

But she conceded the new-look notices sent to households in 2018 had created uncertainty for some ratepayers.

"The government has heard and understood feedback from the community that the re-design of the rates notices has resulted in confusion for some Canberra householders," the spokeswoman said.

"All annual rates notices have now been issued for the 2018-19 year, but we are using this feedback to inform further design work on the notices for future years, including addressing the issues raised through the Greens' Assembly motion."

The territory government has already taken action on another aspect of Ms Le Couteur's motion, which called for the government to write to all residential ratepayers who received concessions to explain the payment options available to them, including deferrals.

These letters were sent to some 13,700 Canberra households last month.

"Life in Canberra can be a tale of two cities," Ms Le Couteur said.

"While Canberra is a high-income community with a growing economy, a substantial number of Canberrans struggle financially and rely on federal government assistance payments to make ends meet.

"By ensuring that those eligible concession holders who pay rates know what supports are available to them, we're working to ensure that the system is fairer for all."

The next batch of ACT government rates assessment notices is due to be issued in August 2019.

Canberra's tax reform exposed huge flaw in system

The Barr government's historic tax reform has aggravated an underlying flaw with the ACT's valuation and leasehold systems, a parliamentary committee has found, even going so far as to call for compensation for some property owners.

The territory government embarked on reform in 2012, gradually abolishing stamp duty in favour of higher land taxes.

But the Public Accounts Committee's inquiry into commercial rates rises on Thursday found ratepayers were experiencing "undue hardship" and "anomalies" stemming from fundamental problems with the regime.

The ACT Valuation Office appeared to be making valuations on the basis of very little information and applying them across entire districts "for want of a better method", the committee report said.

While this mass appraisal method is used in other Australian jurisdictions, the ACT is the only one which has a leasehold system where land is granted for a set period and a certain purpose.

This added a level of complexity which was not being taken into account by the Valuations Office when calculating the unimproved value of a parcel of land and tax bill, the report said.

Compounded by the poor appeals process with its prohibitive costs, property owners had no recourse which in turn appeared to be having a "chilling effect" on investment.

The committee took the extraordinary step of recommending the government look at compensation for ratepayers who experienced sudden, large increases in rates because they had retrospective assessments done or were required to pay for unactivated uses.

It also recommended commercial rates revert to 2012 levels while a taskforce looked at the overall economic impact of the rating system and tried to find ways to improve certainty and transparency for landholders. Labor backbenchers Bec Cody and Tara Cheyne dissented from those recommendations.

"The committee takes the view, on the basis of a diversity of opinion that was put to it in the course of the inquiry, that there should be a concerted effort to effect change in the commercial ratings system and that, given the range of interests involved, it is unlikely that government alone can achieve the changes that are necessary," the report said.

"Government should work with other stakeholders to design a new commercial rates regime that will be a better match to conditions in the territory."

The government has also been urged to reconsider the "appropriateness" of retrospectively charging people years of commercial rates after a belated revaluation, after the committee heard of cases where property owners were given 28 days to pay five years of rates.

The committee also urged the government to look at introducing a system of apportionment so landowners were only paying for the activated uses.

That followed evidence from the ACT Valuation Office's own landlord, whose rates went from $100,000 to $1.4 million in three years following a revaluation of the block which deemed it should be redeveloped into a mixed-use precinct. The landlord is unable to redevelop the site until the Valuation Office's lease expires in November 2020.

The government has also been urged to introduce rates concessions for heritage-listed properties to take into account strict rules around the use and redevelopment of the sites.

The committee heard from a Manuka property owner whose commercial rates are about 10 times greater than what the residential rates for the same parcel of land would be. She cannot redevelop the block because of a heritage nomination.

The government was also told it needed to find a fix for the case of Karen Paxton, who got hit with a valuation increase of more than 300 per cent in a single year on a block she is only allowed by Crown lease to use for storage or parking.

Other recommendations include introducing a mediation system for landowners to resolve valuation disputes, as well as incentives to attract more valuers to the ACT.

Committee calls for review of 'flawed' commercial rates system

Small businesses are hurting under the current commercial rates system, the committee found.

An Assembly committee has recommended the establishment of a task force to review the commercial rates system in the ACT after it found businesses were hurting from its one-size-fits-all approach, anomalies, inflexibility and an onerous objection process.

It also found that the system remained fundamentally flawed due to a mass appraisal approach that did not take into account the complexities of land use within individual leases, throwing up inequities that cast doubts on its fairness.

Among 25 recommendations, the committee urged the connection between the revenue and valuations offices be broken, so that the valuations were not performed in the same area responsible for collecting revenue; and introduce another mediation process to deal with objections as a cost-effective alternative to the ACT Administrative and Civil Appeals Tribunal (ACAT).

The committee found the system was unresponsive and lacked transparency, producing uncertainty for businesses which also found objecting to valuations difficult and expensive.

It found that the location of the ACT Valuations Office within the Revenue Office amounted to a conflict of interest and also made it harder for businesses to pursue objections.

It also believed that the system was having a chilling effect on commercial activity and investment in the Territory, and possibly driving businesses across the border. Smaller property owners, in particular, were hurting and increased costs were being passed on tenants and their customers.

"The Valuation Office appears to be making assessments, on the basis of very little information, and then applying them across areas and precincts. It was inevitable that such an approach would produce anomalies and inequities, and that is exactly what has occurred," committee chair Liberal MLA Vicki Dunne said.

"In short, the fundamental problem is that the Territory has adopted the mass appraisal method used in other Australian jurisdictions without attending, sufficiently, to an underlying rating base characterised by a complexity — due to the presence of use purpose clauses for individual Crown leases — not seen in any other jurisdiction. For mass appraisal to be effective, the ACT government must do something to rationalise the ratings base."

The committee also recommended that the Government consider compensating ratepayers who have experienced sudden large increases in rates due to long-term retrospective rates reassessments or have been required to pay rates on the basis of unactivated uses.

Opposition Leader Alistair Coe seized on the committee's findings, saying Chief Minister Andrew Barr must stop the crippling commercial rates regime and warned that Canberra would lose even more businesses and jobs if the Government did not act.

"I called for an inquiry into commercial rates because I was troubled to hear local businesses were leaving Canberra due to unsustainable rates increases and loopholes," Mr Coe said.

"The evidence presented to the committee demonstrates businesses in Canberra are clearly hurting. The financial pain being felt by so many local businesses is compelling and needs to be carefully considered by this government.

"Commercial property owners have seen the value of their property decrease due to reduced yield as a result of increasing rates. Some commercial properties have seen their rates increase by 300 per cent."

But a spokesperson for Mr Barr said the Government had already addressed many of the issues raised in the inquiry through its own submission, which says comparisons with NSW should not be made and points to land tax and stamp duty reforms.

The spokesperson said the Government would review the inquiry's recommendations and respond in detail in coming months.

“The Government is currently implementing a 20-year tax reform agenda that is making our tax system as a whole fairer, more efficient and more sustainable,” the spokesperson said.

“The Government is establishing a Tax Reform Working Group to analyse the impact of these reforms in their first two phases, including many of the issues raised by the committee’s report.”

New way for landlords to skip land tax. But it comes at a real cost

Landlord Krishna Sadhana has signed up for a $1400 a year saving in land tax, but it will come at a cost of missing out on $5000 a year in rent, leaving her $70 a week out of pocket.

From April 1, landlords who rent through Community housing provider CHC for 25 per cent less rent than market value don't have to pay land tax.

CHC is looking for 100 altruistic Canberra landlords to take on low-income tenants in return for a land-tax exemption.

Up to 100 properties are eligible for the exemption as part of a two-year pilot program, after legislation passed the ACT parliament last week.

The exemptions only apply if the property is rented through CHC or other registered community housing providers and if the tenants aren't eligible for public housing.

Ms Sadhana said she would sign up for the scheme, despite losing $70 a week. The Watson resident already rents out her property, also in Watson, to disadvantaged tenants, and said she wanted to help give back to people doing it tough.

"It may be a financial loss [to take part in the scheme] but it's a gain in other respects," Ms Sadhana said.

"I know the word landlord and ethical don't seem to go together and I'd like to challenge the status.

"People who are in a good position should be able to help those aren't in a good position."

She said it was an easy decision to make to rent out her property to low-income tenants at a reduced rate.

"In my past when I was a single parent, at times I was living in very poor conditions, and I would've wished there was someone who could have come along to offer affordable housing," she said. "Now I'm in a lucky position, it wasn't a hard decision."

The chief executive of CHC, Andrew Hannan, said the changes would make Canberra's competitive rental market more affordable.

"It has the potential to be really impactful and it offers a new pathway to grow the supply of affordable rental products," Mr Hannan said.

"This is a very targeted scheme to assist those who are the most acutely affected by the Canberra rental market."

There are 11 community housing providers in the ACT, operating almost 900 homes.

Mr Hannan said the scheme would depend on landlords willing to switch property management companies to a community housing provider such as CHC.

While landlords would be out of pocket due to the reduced rent, the tax exemption would help to minimise it.

"The scheme is reliant on people being philanthropic and while some landlords will be worse off financially, they'll be making a difference in mobilising for the broader community to give them the opportunity to enter the Canberra rental market," Mr Hannan said.

"More than 50 per cent of renters are in some state of housing stress, and this scheme directly targets that cohort who are affected."

A December 2018 Domain report found Canberra had the highest median rental price for houses and the second highest median for unit rentals out of Australian capital cities.

The median price for renting a house in the nation's capital is $560 per week, while the median unit price is $465 per week.

The land tax exemption was pushed by the ACT Greens, whose housing spokeswoman, Caroline Le Couteur, wants it to be extended beyond the two-year trial to attract more landlords.

"The biggest issue is getting landlords to sign up, particularly if it's only happening for two years," Ms Le Couteur said. "If it was an ongoing scheme that would run for an indefinite amount of time it would work. The scheme won't be an overnight success, but give it time and enough people will sign up."

Ms Le Couteur said the Canberra property market would be well suited for the exemption scheme.

"One of the big markets in Canberra are people [in the public service] who are on overseas postings and can lease it out to a tenant while they're on their posting," she said. "There's a big market in Canberra for those people, and Canberra is a very unaffordable place to rent."

Ms Le Couteur herself has a rental property which she rents to migrant community members.