IPTI Xtracts

Property Tax and Assessment News from Around the World

AUSTRALIA – August 2019

Contents

Land tax damage ahead

If you were a business owner thinking about preparing for your retirement, what would you do?

Most would consider property investment, shares or boosting their superannuation. It sounds simple.

But the trifecta of land tax issues, including planned changes to aggregation laws, have created a black hole of uncertainty and sent shockwaves through the community, including mum-and-dad investors.

Many people are now questioning how they have legitimately and legally structured their assets and whether they should sell immediately.

Some have told Business SA that they’re considering moving interstate.

The reasons for investing in commercial and residential property are varied. A manufacturing business is more likely to own its factory and fit it out to meet its own needs, while, for a retailer, it might be to secure a prime location to attract clientele.

For business operators, owning property can be an aspiration and provides security for when times are tough or if the business needs collateral to borrow against to fund an expansion. Buying property can also allow a business owner to diversify revenue streams.

Business owners often hold land in separate legal entities for a range of different reasons, including asset protection, succession planning, partitioning of subsidiary businesses, retirement planning and tax minimisation.

Whatever those reasons, many owners are worried their finances are about to take a significant hit.

In a recent Business SA survey, 60 per cent of the owners and operators who took part said they would be affected, and 76 per cent of those said they would be forced to sell their commercial or residential properties as part of an asset restructure under the proposed land-tax changes.

Combined with the Valuer-General's revaluation process, which is showing a median site value increase of between zero and 10 per cent, businesses are telling us they cannot afford to absorb these costs.

They're saying residential and commercial property markets will freefall, with fire sales across the state. Owners are putting developments worth millions of dollars on hold because of the uncertainty. Landlords will pass costs on where possible and tenants will suffer from increased rents.

Not since Labor's planned bank tax have we seen such a significant threat to our state's economy. Business confidence has fallen for two quarters. Owners and operators need certainty, and without that, they stop spending, investing in equipment and upgrades, and they're unlikely to employ that extra apprentice or casual.

Land-tax aggregation changes aren't just threatening the big end of town, they're threatening mum-and-dad investors with two properties, business owners with a factory and retail outlet, and rental and retail tenants across the state.

Reducing the top rate from 3.7 per cent to 2.9 per cent over seven years is but a small concession, and it still leaves us lagging behind the other states.

If we want to keep our SMEs in South Australia, we must create a competitive tax environment which makes investing here worthwhile. At the moment, it's not.

Business SA is calling on the government to set aside any aggregation measures until the revaluation initiative is complete so that it can fully understand the impact that it will have on South Australia.

Martin Haese is chief executive of Business SA.

Kalgoorlie business owners feel land value pain

Business owners across Kalgoorlie-Boulder are smarting from huge rates increases driven by rises in property valuations, with one operator experiencing an almost 40 per cent rise in her rates bill.

Broken Hill Hotel co-owner Arlene Mackay's rates have increased by 36 per cent since last year.

In the 2017-18 financial year, Ms Mackay's business had a rate increase of $75 on the the previous year, and the increase in 2018-19 was $79. This financial year, the rates increased by $2650.

Ms Mackay said she had never seen a rate increase so high in the 11 years she had owned the South Boulder hotel and pub.

The City of Kalgoorlie-Boulder adopted a zero per cent variation in the rate in the dollar across all property types for the 2019-20 year.

But property revaluations carried out every three years by WA land information authority Landgate, which the City uses to calculate rates, saw the value of many properties soar this year.

In the case of the Broken Hill Hotel, the gross rental valuation increased by more than $23,000 to $85,800 from $62,400.

“I don’t see how it could have gone up this much because we’ve gone through a mining downturn and rental values in town have decreased,” Ms Mackay said.

“The economy is suffering everywhere and certainly in WA. I don’t understand how our rental value has gone up.”

A Landgate spokesperson yesterday told the Kalgoorlie Miner property valuations reached this year were not considered higher than usual.

The spokesperson said property valuations were based on rental evidence at the date of valuation and were calculated by taking into account factors that would be considered by potential tenants, including location, age, size and quality of the buildings.

“The increase reflects the actual market rents being paid for properties in the areas at the date of valuation,” the Landgate spokesperson said.

Ms Mackay said her business would be challenging its property valuation.

People are really struggling, we have empty shops because people can’t afford to pay the rents, and those are the rents Landgate tell people they can get, but people can’t afford it. - Arlene Mackay
Toyworld owner Jacob Altes said his rates had increased by 10 per cent this year — the highest increase he had experienced.

“We’re not in a boom, the gold price is great but it hasn’t reflected on the real estate market as far as I can see,” he said.

“I don’t think they can justify that increase.”

Other businesses the Miner spoke to said their property values and rates had also increased, although not by much.

Freerange Supplies owner Marisol Sweet said the business’ rates went up every year and although it “was not pleasant”, she always expected an increase.

Land tax gripes on the rise in Melbourne's leafy Toorak

Rising land tax bills are triggering an unprecedented number of challenges from the home owners of Toorak and surrounds, as they feel the pinch of higher bills at a time when property values are falling.

The City of Stonnington, which includes Melbourne's priciest suburb of Toorak and surrounding areas including Prahran and Windsor, has seen a surge in objections to land tax assessments sent to home owners since the new financial year started .

Challenges to land tax bills from Stonnington Council, which includes Toorak, have risen to record levels. James Davies

"Council has received a record number of land tax objections this year, we expect the final number to be approximately 650," the city's chief executive office Jacqui Weatherill said.

"This compares to 98 objections over 2017-2018."

The complaints are predictable. While market prices have largely been falling across Melbourne and Sydney since their 2017 peak – and they remain more than 10 per cent below that level – the rates levied by local authorities are based on land values at the start of 2018, before much of the declines had taken root.

And while prices overall have picked up in the past two months, homes in the top quartile of dwellings by price have suffered the most. Over the 12 months to July, home values of the top 25 per cent of dwellings by value fell 4.1 per cent while those in the lowest quartile by value rose 7.5 per cent, CoreLogic figures show.

"This year we received 13,000 land tax objections [which were up on the prior year]," Victorian Valuer-General Robert Marsh told The Australian Financial Review on Friday, after publishing dwelling value figures for the 2018 financial year.

"It's fair to say no more than a third will go beyond the query level. Often the objections are because people expected land valuations to fall, so are surprised that they went up. That's because land tax notices this year were based on values from 1 January 2018."

Rising land tax rates are also biting owners harder now because historically low interest rates curb the income some investors have traditionally relied on from other sources, such as term deposits, to offset their low rental yields on residential property.

In addition, tax bills can be higher for land held in trusts, such as family trusts, because they are assessed at a higher surcharge rate of tax than the general rate of tax. The more investment properties held, typically the higher the rate of land tax paid.

Rising land tax bills were likely to boost the number of properties on the market in the coming spring season, as owners, including families who had held properties in trust for years, were unable to meet their tax bills and opted to sell, said buyers' advocate David Morrell.

"It's going to be driving a few decisions," Mr Morrell said.

Business warns of SA land tax 'damage'

Many business and property owners will be forced to sell up if controversial changes to South Australia's land taxes go through, the state's peak business group says.

Business SA says a survey has revealed 60 per cent of business operators believe the tax changes will affect their operations, and 76 per cent of them believe they will have to sell.

"The results show us that land tax aggregation changes will affect the whole state, from retailers who lease their space to truck drivers who might own their workshop, and mum and dad small business owners who have diversified their risk by buying a rental property," chief executive Martin Haese said.

"In the past, property was considered a safe investment option for our retirement savings and to diversify risk, but business owners across the state are telling us they're going to sell their assets and many are even considering investing interstate because they can't afford to absorb the land tax aggregation increases."

The government's changes, announced in this year's budget, seek to close a loophole that allows people with multiple properties to pay minimal tax by using complex ownership structures including trusts.

The government expects to bring in an extra $40 million a year with the new measures.

But it says other changes to tax rates will reduce its total land tax take in coming years.

It has also indicated it is willing to consider the concerns of stakeholders before introducing the new arrangements in July next year.

But Mr Haese said the state's businesses were facing a triple whammy of increased property valuations, the land tax changes and a tax rate that was already too high.

"This trifecta will put pressure on the entire state's economy, including property owners flooding the market with commercial and residential properties, developments being put on hold and supply chains being disrupted," he said.

"If the government doesn't act now to delay the introduction of the tax or introduce a rate competitive with the other states, South Australia's business community will suffer significant damage at a time when they're still facing high operational costs."

Council rating system reviewed

Victoria's current rating system is under review to ensure all processes are fair and transparent within local government.

In response to the Victorian Parliament's Inquiry into the Sustainability and Operational Challenges of Victoria's Rural and Regional Councils, the rating system inquiry recently began to identify changes and to improve fairness and equity.

An independent three-person panel responsible for the review includes former CEO of the Melbourne City Council, Royal Children's and Royal Women's hospitals Dr Kathy Alexander, former Essential Services Commission chairperson Dr Ron Ben-David and former Brimbank City Council administrator John Tanner.

Dr Alexander said the panel would be consulting with communities, councils, peak bodies and key stakeholders to have meaningful discussions around how rates and charges were applied.

"Victorian ratepayers should know how their rates are raised and how the costs of council services are allocated across the state," she said.

According to government statistics, Victoria's 79 councils raised more than $5 billion in rates throughout the 2018-19 financial year.

"Rates have existed as a major revenue source for local councils for many years, helping to fund important works and projects that enrich the community," Dr Alexander said.

"The rating system is complex and the result of many years of additions and different council practices, so one of our roles will be to demystify some of the major parts of the system."

In 2015, the Fair Go rates system was introduced to limit the amount of revenue increases a council can levy through rates.

Capped at 2.5 per cent across the state for the 2019-20 financial year, this was the increase adopted by Greater Shepparton City Council.

Council's acting chief executive officer Chris Teitzel said the rating system review was a positive initiative.

"There isn't anything fundamentally wrong with the system but a periodic review of how the taxation system works is a good thing," he said.

Mr Teitzel said rates form a significant part of the council's income stream and.

He said the council would most likely continue to implement the Fair Go rates system.

"It can be difficult to implement special charges so we don't foresee us doing that in the immediate future."

Dr Alexander and Mr Teitzel both agreed the rating system could be complex and complicated for both councils and ratepayers alike.

"Our focus will be on identifying areas where the current rating system can be improved, and what changes can be made to how these charges are imposed on ratepayers moving forward," Dr Alexander said.

With the review now accepting public feedback and submissions, Mr Teitzel encouraged the community to share its opinions.

"It's a great opportunity for the public to have their say on rates, charges and local government," he said.

The review will conclude in March 2020, and the Fair Go rate cap will be separately reviewed in 2021.

SA-BEST party may launch land tax probe

The South Australian government's controversial changes to land tax may be investigated by a state parliamentary committee.

Crossbench party SA-BEST is considering a push for a parliamentary select committee to investigate the South Australian government's proposed changes to land tax.

In the recent state budget, the government announced a move to close what it called a loophole that allowed people with multiple properties to pay minimal tax.

The proposed changes have angered the property sector which has warned the increased costs will also flow on to businesses and those in rental housing.

SA-BEST upper house MP Frank Pangallo said the government's move has caused widespread outrage.

"Not only will hard-working mum and dad investors be unfairly hurt, but so too will small businesses," he said.

"At the end of the day, any increased costs faced by property owners - whether they own commercial or residential properties - will be passed on to the businesses and tenants that rent those sites."

As well as a possible committee investigation, Mr Pangallo has introduced a motion to parliament to bring on an urgent debate.

The government estimated the changes will raise about $40 million a year but said other cuts to land tax rates will actually reduce its total take from property charges.

It has also promised to take into account submissions from all stakeholders before introducing the new measures in July next year.

Adelaide’s vacancy rate dips as land tax tidal wave rises

The Adelaide CBD office vacancy rate has dropped for the fifth consecutive period – but here are three reasons why it could rise sharply given risky proposed changes to land tax.

The latest Office Market Report reveals a drop from 14.2 to 12.8 per cent for the city, while Fringe vacancy has increased from 12.6 to 13.1 per cent in the six months to July 2019.

“The Adelaide CBD office market vacancy decreased over the past six months, mainly due to positive demand of 15,824sqm and withdrawals totalling 7,074sqm,” said Property Council SA Executive Director Daniel Gannon.

“While confidence levels are more than 20 points above South Australia’s historic average and office vacancy rates are trending downwards, Premier Steven Marshall’s risky proposed changes to land tax will cause significant head-winds over the horizon.”

Mr Gannon has cited three reasons as evidence that South Australia’s office vacancy rates could rise sharply, as below.

- The State Government’s $120m land tax aggregation Budget measure will take a sledgehammer to South Australia’s institutional investment market and development sector even before the Valuer-General’s statewide revaluation measures kick in.
- South Australia’s anti-competitive land tax regime, which at 3.7% for the top aggregated tier is a disincentive to invest or continue to invest in the state, and is 85% higher than in NSW and 65% higher than in Victoria.

- South Australia's sluggish and lethargic population growth rate significantly trails the rest of the country, with Victoria growing by more people every 27 days than SA grows across an entire year.

"At a time when 26,070sqm of space is due to come online in the second half of 2019, followed by 17,786sqm in 2020 and 43,636sqm after that, risky tax changes are the last thing we need," Mr Gannon said.

"Recent announcements in the space and defence industries along with an important City Deal for Adelaide should be the economic catalyst South Australia needs, driving vacancy rates down and stimulating the city's core.

"However, instead of doubling down on these economic green shoots, the State Government is now caught up in a jellyfish of destructive land tax changes that could scare off investors and hurt superannuants and their nest eggs.

"This spells trouble for commercial landlords, whose surplus capital might have to fill Treasury coffers now rather than contribute to a building's facelift and a general injection to Adelaide's commercial market."

Mr Gannon said the State Government could immediately pursue key reforms to maintain historic confidence levels, as below.

- Significantly amend or abolish its recent $120m land tax aggregation proposal to ensure a competitive outcome for investors and superannuants.
- Apply a handbrake to the Valuer-General's statewide revaluation initiative, which under a modest 10% increase scenario would deliver an extra $75m every year in land tax revenue.
- Reduce land tax rates, spending and public sector inefficiencies to allow for policy reversals as listed above.

Reforming Local Government in South Australia — Survey 1: Stronger council member capacity and better conduct

Is your council plagued by badly-behaving councillors? Councillor conduct is a big theme of the first reform area outlined in the State Government's 88-page discussion paper on Local Government reform.

As the report states: "Communities have high expectations of how their council members should behave. They are leaders in their communities, who speak and make decisions on their behalf. They step forward to serve on their council, and commit considerable time and energy to make their local community a better place to live.

"However, from time to time, some council members conduct themselves in a way that is not acceptable. This can be poor behaviour, such as rudeness or a lack of respect to fellow council members or community members. It may be poor behaviour in a council meeting, through an unwillingness to engage in the respectful debate that's needed to ensure good decisions."

"There is a strong view that the current system for managing the conduct of council members is not delivering on these expectations."

Reforming Local Government in South Australia — Survey 2: Lower costs and enhanced financial accountability

Is your council a good money manager? Does it tick all the boxes when it comes to good fiscal management?

Council costs and financial accountability is the second key area outlined in the State Government's 88-page discussion paper on Local Government reform.

As the report states: "Councils in South Australia collectively manage an annual budget in excess of $2.2 billion and are responsible for more than $24 billion worth of infrastructure and other assets. To manage these responsibilities, councils can raise tax—council rates—and impose other fees and charges on their communities.

“It is essential that councils, as public bodies, meet the right standards of accountability for public sector administration and management of public funds.”

“The reforms proposed in this paper aim to enhance financial accountability and improve efficiency within the local government sector by delivering greater confidence in council audits, improving council decision making, financial reporting, and making information about council financial performance more accessible.”

Reforming Local Government in South Australia — Survey 3: Efficient and Transparent Local Government Representation

Because councils are responsible for so many important aspects of your life, and the health and well-being of your community, voting in local council elections is one of the most important decisions you’ve got to make.

Efficient and transparent representation by your local council is the third key reform area outlined in the State Government’s 88-page discussion paper on Local Government reform.

As the report states: “Just like State and Federal elections, Local Government elections establish our government. They give us the ability to choose who we want to represent us, to lead our communities, and to make decisions about the services that are available to us.”

“And it is fair to say that the way in which we vote for our councils in is a matter of great importance to all people with an interest in local government.

“It’s critical that this process is fair, transparent, run independently, provides the right information at the right time, and encourages participation from potential council members and voters alike.”

Reforming Local Government in South Australia — Survey 4: Simpler regulation

The extent to which councils are regulated by government legislation plays a big role in how your council does — and is allowed by law — to make decisions about you, your street, your local park, the services in your area.

Streamlining the way councils are regulated is the fourth key reform area outlined in the State Government’s 88-page discussion paper on Local Government reform.

As the report states: “Councils play an important role in our local communities and make many decisions that have a real impact on our day to day life. While councils are independent governments in their own right, their operations and decisions must comply with broader rules. “These are the various pieces of legislation that apply to councils, that set out the processes by which they make decisions; consult with their communities and release information.

However, we must always be aware that compliance with these rules costs councils time and money. If regulation is inefficient, or ineffectively designed or administered, it imposes unnecessary costs on councils, businesses and the community. That is why regulation must be regularly reviewed, to ensure that the rules are justified by the benefits they deliver.”

Forum to consider SA land tax changes

A public forum to consider the impact of South Australia's controversial changes to land tax arrangements has been held amid continued opposition to the reforms.

Crossbench party SA-BEST is considering a push for a parliamentary select committee to investigate the government's proposal which seeks to close a loophole allowing people with multiple properties to pay minimal tax.

The party also organised the forum at the University of South Australia on Sunday, which brought together investors and others involved in the property sector.

Upper house MP Frank Pangallo said the government's move had caused widespread outrage.

"Not only will hard-working mum and dad investors be unfairly hurt, but so too will small businesses," he said.

"At the end of the day, any increased costs faced by property owners, whether they own commercial or residential properties, will be passed on to the businesses and tenants that rent those sites."

Father of two Will Arnoldus said the proposed changes threatens his family's future.

Mr Arnoldus and his wife Nicole have a combined income of $110,000 a year, which includes $30,000 of rental income.

"Our land tax is now $9000 a year. It will go from $9000 to $93,000 a year," the 51-year-old, who works as a processor, said.

"If it comes through the way it has been suggested, we will have to sell down property and we won't invest any further in South Australia, and it's likely we'll leave the state."

The state Liberal government expects to bring in $40 million extra a year with the new measures.

But it said other changes to tax rates would reduce its total land tax take in coming years.

Deputy Lord Mayor of Adelaide Houssam Abiad, who has been a Liberal member for ten years, said in the forum he is expecting the tax changes to have a detrimental impact on the city.

"We can not afford to be on the same par as Sydney and Melbourne, we have to be more competitive than Sydney and Melbourne" Mr Abiad said.

"Adelaide has moved from demanding from the federal government to asking nicely ... now, begging the federal government for funds."

Mr Arnoldus' daughter Brianna, 18, said the changes could affect her dreams of studying medicine at the University of Adelaide.

"I've been working really hard for the past couple of years ... I've been doing some other study now to help myself get into that course," she said.

"To move because of this (would not be) ideal."

The government indicated it is willing to consider the concerns of stakeholders before introducing the new arrangements in July next year.

Opposition Treasurer Stephen Mullighan fell short of promising to oppose the changes.

"We don't have a proposal for the government yet, we don't have a piece of legislature which we can consider," he said.

"What I'm concerned about ... is if this legislation doesn't pass, what's the alternative?"

He said the Liberal government could resort to other "punitive measures" if the initial proposed changes are shut down.

Nicole Arnoldus, 49, wants to see more relief for property investors.

"Not just for us, it's the high-end investors, it's going to impact them as well as the investors that have one or two properties," she said.

Sydney councils push to make expensive property owners pay higher rates

Sydney councils are pushing for some owners of expensive properties to pay $500 a year more in rates under a radical proposal to change the way levies are calculated before the state government.

The Independent Pricing and Regulatory Tribunal, which sets rates, has proposed a shift in the way rates are assessed away from the present focus on a property's "unimproved value", which largely captures the value of the land, to their "capital improved value" which takes into account the value of the actual property.

The impact of such a change would mean that property owners with the same sized land would be charged different rates depending on the value of their house or apartment.

The plan has been supported by a number of Sydney councils on the grounds it would be a fairer way of apportioning rates that pay for services like road maintenance and childcare centres.

Local Government Minister Shelley Hancock said the government would not "rush its response to such significant matters.

"We must get this right, and will do so in conjunction with local government," she said.

"IPART's report recommends a fundamental change to the way in which council rates are calculated which would potentially affect millions of ratepayers."

On IPART's analysis of its reform proposal, about 5 per cent of residential ratepayers would confront an annual increase of more than $500 a year or more under a changed system.

The "overwhelming majority" of those residents would be the owners of high-value apartments, IPART said.

The IPART also recommended the total amount levied by each council on rates should not increase meaning some property owners with less expensive houses and apartments would pay less.

Consultation will close next month but the difficulty of implementing the change is demonstrated by the reluctance of the state government to discuss the proposal.

The change was recommended in a report by the Independent Pricing and Regulatory Tribunal handed to the former local government minister Gabrielle Upton in late 2016.

It was released in June after Ms Hancock became the Local Government Minister and when it appeared the NSW Legislative Council might demand its release.

Council rates are determined by IPART. The most recent determination set the annual allowable increase at 2.7 per cent, based on an assessment of the costs incurred by councils. The most significant increase in costs faced by councils was the 14.4 per cent increase in electricity and street lighting.

Greens MP David Shoebridge, who advocated for the release of the IPART review, said the changed methodology would be more equitable, though some protections were needed.

"Around the world local councils have moved to CIV [capital investment value), especially in our cities as we get more and more intense development," he said.

"This would mean that the owner of a penthouse apartment would pay a fairer rate. But we need to make sure there's mechanisms in there that people in modest two bedroom apartments are not hit with unreasonable rate rises."

The president of Local Government NSW, Linda Scott, welcomed the fact that IPART recommended more flexibility for councils to determine their rating systems.

"Just as some local governments need a rating system to manage challenging growth and density in urban areas, others need a rating system that incentivises growth in many regional areas," Cr Scott said.

SA Government at odds with Property Council over land tax loophole

After a furious backlash from supporters and donors, South Australia's Liberal Government could rethink aspects of its controversial land tax measures flagged in last month's budget.

Key points: