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Property Tax and Assessment News from Around the World

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Rates are much lower than you think, and they're responsible for miserable growth in cities

Rates rises are on the tip of tongues this local election season, but spare a thought for the councillors who have to turn miserly revenue into big promises, writes Thomas Coughlan.

Politicians of all stripes have been hitting the pavements of New Zealand's 78 local bodies, each looking for a seat at the council table.

A question they'll meet on nearly ever doorstep is what to do about rates and their seemingly inexorable rise.

In Auckland, incumbent mayor Phil Goff has committed to keeping average rates increases to just 2.5 per cent next year in the super city, while in Wellington councillors have taken flak for voting to increase average rates by 8.9 per cent per annum.

It's a tough question to answer, especially when those same voters demand more and better services from their local bodies.

On top of that, central government has an ever-growing laundry list of demands from local councils.

MPs have proven themselves quick to point the finger at councils, which have been named and shamed as one of the chief culprits of the housing crisis for their unwillingness to front up with more land and infrastructure needed to build more housing.

It's hard to build houses at scale if a council is unwilling to connect a development with roads, water and rubbish collection.

But while many Kiwis think they're quietly being screwed by mounting rates bills, local government taxation as a percentage of the total economy actually hasn't increased since the 1890s, yes the 1890s.

The figures were released earlier this year by free market think tank The New Zealand Initiative, which partnered with local government group Local Government New Zealand (LGNZ) to push for more devolution of tax and spending powers to local government.

While central government has progressively helped itself to more and more of the economy, starting at roughly 5 per cent of GDP in 1890 and settling at just under 30 per cent now, the share devolved to local government has barely moved.

Part of the reason central government's share of the tax take has increased so much is that it's taken on more and more responsibility in areas like social security, health and education.

But local government responsibilities have grown too, leaving them responsible for tasks like finding accommodation for the tens of thousands of new residents their cities welcome every year.

Local bodies are saying they've had enough, and that the current system actually acts as a disincentive for doing the very things the government wants them to do.

Outgoing Dunedin mayor and LGNZ president Dave Cull said central and local government face opposite incentives when it comes to thinking about New Zealand's growing population.

Central government has every incentive to see New Zealand's population increase.

"It's central government that gets the benefit of extra taxes the GST, the extra PAYE," Cull said. Central government also gets bragging rights after a period of above average immigration manifests itself in some healthy GDP growth.

New Zealand Initiative economist Eric Crampton agrees.

"Councils then come to treat growth as a cost to be avoided rather than a benefit," he said.

On the other side of the ledger, local bodies have almost no incentive to attract growing populations. Rates still tend to be the main revenue source with other charges, like consents, often subsidised by rate revenue. A council that issues too many consents could, perversely, blow a hole in its budget.

Cull thinks the incentives should flow to local government too, perhaps by allowing local bodies to keep a portion of the GST they collect in their area, or allowing them to implement a targeted rate on new developments.

So far the Government has been loath to give up too much control, although it's moving slowly in the direction of letting councils levy targeted rates.

A year ago, Urban Development Minister Phil Twyford announced $91 million worth of roading and wastewater infrastructure to support 9000 new houses would be paid for with the help of an "infrastructure payment" collected alongside rates.

Crampton would like to see more financing like this.

"Project-based infrastructure financing can make sure that the costs of new infrastructure are borne by the beneficiaries of that infrastructure, rather than council more broadly, and that that cost is spread over the lifetime of the infrastructure," he said.

Ultimately, Crampton would like New Zealand to look to American councils like Phoenix City Council in Arizona, USA. There. the council oversees the issuing of debt at multiple interest rates, each backed up by targeted rates on infrastructure those properties. Currently, councils borrowing more to build means that their overall interest rate will rise. Ring-fencing bond issues for each project could avoid this.

New Zealand isn't set up legally to allow councils to issue multiple different bonds that are not technically on its main balance sheet, but Crampton thinks this is the direction we could move in.

"Doing it would mean that councils at their debt limits would not need to load those infrastructure costs as heavily into rates," he said.

But legal and financial innovation is a long way from being on the political agenda.

For now, Cull would like to see an end to central government parcelling responsibilities onto local bodies without giving them the tools to meet them.

He wants Treasury to use its Regulatory Impact Statement to include an assessment of how much new laws will cost local bodies.

"If it affects local government the effect on local government has to be investigated."

ROLES AND RULES

What they've got

Councils can charge rates on properties, charge for services like swimming pools and golf courses, or building consents, although these often come at a subsidy, meaning councils have a disincentive to grow.

What's off limits?
The big revenue earners like GST, PAYE, and other income taxes all flow into the coffers of central Government in Wellington, which netted $80.2 billion in tax revenue in the 2017/18 year.

Why do councils want it?
Councils a slice of central government's tax take would give them greater incentive to build important things like roads and water infrastructure.

Manawatū's residential land values almost double in ratings revaluation

The total rateable value of the 14,510 properties in the Manawatū district was nearly $11 billion, a 36 per cent increase from 2016.

Manawatū property owners have been given a hint of what their rates bill might look like next year after new rating valuations were sent out.

The latest rating revaluation, carried out by Quotable Value, shows the district's property values have made a significant leap up over the past three years, particularly residential land, which has almost doubled in value.

QV rating manager Simon Willocks said the total rateable value of the district's 14,510 properties was nearly $11 billion, a 36 per cent increase from 2016.

Willocks said there had been large increases across all property types, but residential properties saw the biggest leap in values, with the bulk of it happening over the past 12 months.

The capital value of the average Manawatū home rose 45.3 per cent to $422,000 and residential land values were shooting up even quicker, hitting an average of $192,000 after a 93.2 per cent increase over the past three years.

Industrial properties had the next biggest jump in values, with an average land value increase of 55 per cent since 2016 and a 30.6 per cent increase in capital value.

Manawatū District Council chief financial officer Amanda Calman said the new rating valuations won't affect anyone's rates bill until July.

So, there was plenty of time for anyone who disagreed about their property's value to get a revaluation. QV has offered to this for free until November 20, but after that, the usual fees apply.

Calman said a rates increase wasn't a given for everyone, however.

The bulk of the rates bill depended on how much money the council needed to collect for services, infrastructure and other planned projects, but wouldn't be decided until the budget for the next financial year was set.

"And only three types of rates are affected by [rateable values], the general rates, parks and reserves targeted rates and the roading targeted rates ... For the average person, it's about a third of the rates invoice"

Calman said because that portion of the rates was calculated relative to other ratepayers, some may pay less in rates even if their property value increased, because it hadn't climbed as much as the average.

And since it was residential property values that had grown the most in the district's towns, many rural residents had a fairly good chance of saving a little, she said.