IPTI Xtracts

Property Tax and Assessment News from Around the World

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Is stamp duty facing the axe in Australia?

Stamp duty on property purchases has been identified as a key barrier for those looking to acquire their first home or downsize.

Of all the taxes people pay, stamp duty on property purchases is one of the most hated.

With a price that bears no resemblance to the actual cost of "stamping'' a property transfer and a payment tax scale that was formulated when a million-dollar house could only be found in the very poshest of suburbs, for many the end of stamp duty cannot come fast enough.

However, you have to be careful what you wish for because should stamp duty be phased out, it would most likely be replaced by a form of land tax, which would apply every year and would certainly not be welcomed by many who were forced to pay on the drip feed every year.

Two treasury secretaries want to axe the tax

No fewer than two former federal treasury secretaries have now united to call for the abolition of stamp duty in favour of a land tax from which most farming land and all existing home owners would be exempt.

Ken Henry and Martin Parkinson both appeared at a conference at NSW Parliament to discuss federal and state finances, which is part of a review being conducted by former Telstra chief executive officer, David Thodey.

Dr Henry told the conference that the stamp duties levied by state governments on property purchases create an unfair hurdle for young aspiring homeowners.

Stamp duty a disaster for first home owners

"It's a big obstacle for first home buyers – saving for the deposit and then saving for the stamp duty – it's just nuts,'' Dr Henry said.

‘’Particularly in Sydney, it’s a massive bill they’ve got to pay.

“If stamp duty were abolished and replaced with an annual land tax, of course, over a 15-year period – or whatever it is – they’ll end up paying the same amount. But they don’t have to come up with all the cash up front.”

Already the ACT has moved to phase out stamp duty and replace it with annual land tax bills but all other states and territories are sticking with stamp duty for now.

Dr Henry’s successor as Treasury secretary, Dr Parkinson, also backed the call to abolish stamp duty and replace it with land tax.

“I’m already on the record as suggesting we do that,’’ said Dr Parkinson.

Henry review wanted to eradicate stamp duty a decade ago

Dr Henry’s landmark tax review that was released but widely ignored a decade ago also recommended abolishing stamp duty in favour of an annual land tax.

Dr Henry said doing that would not only get rid of many “distortions” created by stamp duties but also help to put state finances on a more sustainable footing.

“Ten years ago, when we looked at the various taxes in the federation , stamp duty stood out then as being the worst, for a whole host of reasons,” said Dr Henry.

“It doesn’t make sense to tax transactions per se – and that is, of course, what stamp duty does.

It’s a bad tax that distorts the market

‘’It creates all sorts of economic and social distortions: people being reluctant to sell their property and buy a property that makes more sense for them because they’re in a new stage of their lives, for example.

Dr Henry said stamp duty was also a big revenue item in the budget, which exposed the budget to a lot of volatility due to sharp rises and falls in property values and transaction levels.

He said abolishing stamp duty was worth doing whether the property market was booming or not.

“It’s just a bad tax,’’ he said.

‘’I think the economic argument for making the investment is going to be strong no matter what time of the cycle. Best just to get on and do it.”

Land tax would apply to higher value properties

As for design, Dr Henry said the new land tax should apply to a broad base of properties, but should exempt low value land and apply higher tax rates incrementally on higher valued land.

“Like the income tax system, there would be a progressive rate scale and that would mean that most if not all farming land, for example, would not actually pay any land tax because the value of the farming land per square metre would be too low to attract a tax,” he said.

Dr Henry said the tax switch should be phased in, so that existing property owners – who had already paid stamp duty – were exempt from paying the new land tax until their next purchase.

At the moment, most states and territories only apply land tax to second properties such as investment houses and holiday homes once they reach a certain value so adding land tax to owner occupied properties could be politically difficult and controversial.

Time to replace stamp duty with a fairer land tax

For many, it's the biggest one-off tax slug they will pay. And it comes on top of many people's biggest ever financial outlay. It's that double-whammy scenario which has so many economists calling for the abolishment of stamp duty on homes. They have a point.

While the rate varies (depending on house value and various concessions) a $750,000 purchase will set you back about $30,000 in stamp duty. Hand over $1 million for a house and expect to pay more than $40,000 in additional tax to the state government.

Two former federal treasury secretaries, Ken Henry and Martin Parkinson, are just the latest calling on the states to scrap stamp duty in favour of a broad-based and ongoing annual land tax. Existing homeowners would be exempt, as they have already contributed stamp duty.

"It's a big obstacle for first-home buyers - saving for the deposit and then saving for the stamp duty - it's just nuts," Dr Henry said.

The argument has echoed for years. Former prime minister Julia Gillard argued for it in 2012, asserting it would improve the nation's competitiveness and increase the mobility of labour, which was a big talking point during the resources boom. In 2005, former treasurer Peter Costello antagonised the states by demanding they abolish stamp duty in return for a windfall from the GST.

Most economists and property industry experts argue the same basic principle. Stamp duty hinders the purchase of buying a home, whether you're a first-home buyer, a growing family needing more room or an older person wanting to downsize. The housing market works best when there is an incentive to buy and sell as people's needs evolve, while stamp duty puts the brakes on it.

So what is stopping such a policy change? State governments have never warmed to the idea, mostly thanks to the billions of dollars that flow to their coffers when the property market is booming.

When the housing market is sluggish, however, things are less rosy. Since mid-2017 the state government has been forced to slash $10.6 billion from stamp duty forecasts.

But in December, the rebound of house prices prompted NSW Treasurer Dominic Perrottet to predict a projected $645 million increase in stamp duty revenue this financial year alone.

While an annual land tax would bring in similar revenue over the long term, the budget would take an initial hit, with nobody paying the lump sum up front. On the upside, it would stop the revenue fluctuations from stamp duty as the housing market booms and busts.

But it's not always about revenue. State governments like to use stamp duty as a political tool to offer concessions to such groups as first-home buyers or those buying off the plan. It can be a handy policy lever around election time, even if it has unintended consequences.

Economists believe these types of giveaways benefit those who already own a home at the expense of aspiring homeowners, pushing up demand for homes, which in turn puts the heat on house prices, making them harder to afford.

Mr Perrottet is pushing significant state-federal taxation reform, arguing state finances are under long-term threat due to a variety of factors, all of which has been obscured by the boom in stamp duty revenue.

Whether this would extend to reshaping one of its biggest revenue streams remains to be seen, but Mr Perrottet has started the conversation.

At a time when house prices are skyrocketing again, the Herald urges both sides of parliament to consider putting abolition of stamp duty in favour of a land tax on the agenda as a way to ensure the state does not divide into haves and have-nots when it comes to home ownership.

Victorian land tax: is 2020 a year of possible reductions?

The Victorian State Revenue Office (SRO) has begun issuing land tax assessments for the 2020 year.

Landowners are encouraged to carefully scrutinise and review their 2020 land tax assessment notices, having regard to the appropriateness of their properties' values and any potential errors in the assessment notice.

In respect of valuations, a weaker residential property market over the 2018 calendar year has resulted in an unusual set of circumstances compared to prior years, where values used to calculate land tax are forecast to decline in the 2020 land tax year (which utilises valuations conducted as at 1 January 2019 – just after the downturn). Landowners are encouraged to consider their valuations carefully in this light, as an unchanged level of value from 2019 may in fact be an overassessment given the downturn.

A less positive development for landowners though in 2020 is the effective removal of an exemption for land adjoining a landowner's principal place of residence in metropolitan Melbourne. Any adjoining land which is separately titled but previously enjoyed an exemption will now be subject to land tax (such as land utilised as a tennis court).

Penalties apply for not notifying the SRO of an error such as the continued enjoyment of an exemption a taxpayer is not entitled to. However, the SRO also commonly makes errors that if rectified, results in a reduction in land tax (and in some cases, sizeable refunds).

Common errors or other issues to look out for include:

- land incorrectly appearing on, or missing from, a taxpayer's assessment;
- a taxpayer being assessed for its multiple landholdings on different assessments (rather than a single combined assessment);
- an incorrect rate of tax being applied – for example, the SRO incorrectly applying surcharge rates applicable for trusts and 'foreign' owners;
- taxable values in the assessment not aligning to corresponding valuation notices;
- land in the assessment being subject to Victoria's vacancy tax regime (but not assessed on that basis) – applying generally where a property has been unoccupied for six months or more;
- exemptions being incorrectly applied or overlooked; and
- trust nominations no longer being financially prudent.

In many cases, these reviews achieve valuable outcomes that put clients in a significant refund position (for previous years) and create land tax savings for future years, or otherwise ensure clients are avoiding future land tax reassessment surprises (with penalties and interest).

Home owners could be slugged with an unfair tax

One of the more unusual taxes in history was the window tax. England imposed a tax on the number of windows in a house in 1696. Taxpayers responded by bricking up existing windows and building new houses with fewer windows! The tax was repealed in England in 1851 after pressure from doctors and others who argued that lack of light was a source of ill health.

This month many Victorians are discovering that we now have a tax that rivals the windows tax for absurdity – a tax on the number of certificates of title a person's home sits on! Until this year the land tax exemption for the family home extended to "contiguous land" (land adjacent to the family home) that was used solely for the private benefit and enjoyment of the person who used and occupied the family home and did not contain a separate residence.

Beginning this year, the government has amended the Land Tax Act to restrict the "contiguous land" exemption to land in regional Victoria. The State Revenue Office is interpreting this amendment to mean that if your home sits on one certificate of title, but your back or front yard includes land on a second certificate of title, only the land in the first certificate of title is exempt from land tax. But if your house crosses over the two titles (for example, the kitchen is sitting on one title and the rest of the house on the other), both titles are exempt from tax.

Therefore, if your home has more than one certificate of title and you live in metropolitan Melbourne you may well receive a land tax assessment this year.

The Treasurer, Tim Pallas, justified the new measure on the basis that it would "discourage land banking within metropolitan Melbourne and thereby promote the efficient use of urban land". It is possible that there are some developers sitting on large backyards or tennis courts intending to develop them at a later time, but the vast majority of people in metropolitan areas whose homes include more than one title are not land bankers.

The loss of the exemption might also be justified on the basis that it will hit those who can afford it – people who have built a tennis court or a swimming pool on the extra certificate of title. But in many, if not most cases, those affected will be homeowners who have acquired a laneway from their local council to extend their backyard. They may even be unaware that their house is sitting on two titles. If the policy were really aimed at taxing the better off there would be far more targeted ways of achieving that objective, such as placing a valuation cap on the family home exemption.

One of the most ridiculous aspects of this new tax is that it is easy to avoid. As the Treasurer himself pointed out when introducing the amendment into Parliament, "Owners in metropolitan areas have the option of consolidating [merging] titles with their principal place of residence land so that an exemption can continue to apply to the consolidated land." How often does a Treasurer, when introducing a new tax, invite people to avoid it?

I would expect that wealthier property owners will take up the Treasurer's invitation. You won't see many property owners in Portsea or Toorak paying land tax on their tennis courts – it will be worth their while to consolidate their certificates of title. But for ordinary mums and dads in less upmarket suburbs, consolidating titles may be unattractive because it will require them to spend money on having a survey done, and meeting titles office fees and paying legal costs. The cost of doing this might be greater than the land tax bill.

And even for those who do consolidate their titles the cost of doing so will effectively be money thrown away that could have been spent more productively.

The new measures are expected to raise $43 million, which is a small change compared to the total land tax revenue base and compares unfavourably to the money that might be outlaid in avoiding the tax.

At the beginning of this article I compared the 17th century windows tax to the new amendments to the Land Tax Act. History explains that the windows tax made sense at the time because the number of windows in a person's house was a good guide to how wealthy they were. The number of certificates of title a person's house sits on is not necessarily any guide at all to how valuable the property is or how wealthy its owners may be. The new land tax therefore compares unfavourably even with the 17th century windows tax.

The government should rethink this change to the law and restore the full exemption to metropolitan house owners.

Michael Flynn, QC, is a barrister specialising in tax and past president of the Tax Institute.

Sydney and Melbourne property markets remain hot … but for how long?

With property prices rising, the five locations that will see even bigger growth have been revealed. With two notable cities missing.

It seems there's no stopping Sydney and Melbourne's extremely hot property markets, with several months of strong price growth continuing into the new year.

But there are storm clouds on the horizon, a leading expert warns, with savvy investors beginning to focus their attention elsewhere.

In what's traditionally a quiet month, the sharp real estate growth trend continued in January – and not just in the two biggest markets – with prices rising in every capital across Australia.

Median dwelling values were up 1.1 per cent in Sydney, adding to a total annual increase of 7.9 per cent, and rose 1.2 per cent in Melbourne, for a yearly rise of 8.2 per cent.

And in a sign that buyers remain extremely confident, auction clearance rates in the NSW capital for the first weekend of February were a staggering 77 per cent.

How long can the latest property market boom possibly continue?

"It really is the last gasp from the boom that ended prematurely a few years ago, mainly because of tighter lending conditions," Richard Sheppard, property investment expert at wealth advisory firm InSynergy, said.

"Once those buyers have run out of puff, and money, I believe median prices will return to levels consistent with soft market conditions."

In its latest report, property valuation firm Herron Todd White said it expects price growth to moderate in Sydney thanks to an increase in new listings.

"Despite this we still expect to see prices increase by around 10 per cent for the year, which will mean prices should move above the previous peak in the second half of the year," it said.

HTW also anticipates higher stock levels in Melbourne, as confidence among sellers lifts, but believes low interest rates and first homebuyer activity will fuel a "strong recovery".

But InSynergy has conducted research to identify five investment locations that are poised for growth over the coming 12 months.

Sydney and Melbourne don't make the cut, Mr Sheppard said.

"I'm concerned that the recent price growth in Sydney and Melbourne will falsely entice investors back to those overpriced markets, when I don't believe the current supposed upswing will last long," he said.

"The only exception would perhaps be units in Melbourne as they are so much more affordable than houses, as well as having one of the biggest price differences between houses and units we have ever seen in Australia."

Instead, he has identified Brisbane, Adelaide, Canberra, Perth and the Sunshine Coast as having the best growth prospects.

Brisbane's housing affordability relative to average incomes was one of its strongest market drivers, he said, and the rest of the country is finding it hard to resist.

Median values in Queensland's capital are about 55 per cent of Sydney's, Mr Sheppard pointed out.

"This is one of the reasons why about 1000 new residents are shifting to Queensland every week, but it's also because Brisbane has about $15 billion in major infrastructure projects either under way or approved," Mr Sheppard said.

"Net rental returns are also about 50 per cent higher than Sydney, which not only provides better cash flow and borrowing capacity, but also is one of the better leading indicators for future growth."

Adelaide's low prices and huge infrastructure investment pipeline were enticing, he said, and increased attention from investors will make it a top performer for several years to come.

A robust economy and consistently high incomes in Canberra were underpinning its property market's prospects, while Perth property looks to have bottomed out after years of price falls.

And the Sunshine Coast is also on the cusp of strong growth thanks to major infrastructure investment.

Commercial property values in Australia near two-year high, but retail still a weak link

Australia's commercial property professionals have maintained a bullish outlook on capital values for the coming 12 months. However, the value of retail assets is likely to decline further, according to new research from the Royal Institution of Chartered Surveyors (RICS).

The RICS Q4 2019 Australia Commercial Property Monitor – which surveys experts working in the property industry, including valuers, to gain insights into market confidence – delivered the strongest outlook for overall commercial capital values since the first quarter of 2018.

Most of those surveyed cited the investor market as the principal source of confidence, noting that the majority of demand was coming from domestic investors rather than offshore.

Investor sentiment edged higher to sit at +8, while owner-occupier sentiment remained flat, near zero.

Access to finance was one of the critical drivers of investor activity, with 40 per cent of respondents citing easier access to credit as a source of confidence.

Combined capital-city values and rents are expected to increase by between 1 per cent to 1.5 per cent over the next 12 months.

But respondents noted a significant divergence in values depending on asset class and city.

Office and industrial properties are expected to substantially outperform retail, while Sydney and Melbourne are expected to see more substantial overall increases than Brisbane or Perth.

Prime industrial values across the country are predicted to rise by 4 per cent over the coming 12 months while prime office values are expected to jump by 3.5 per cent.

RICS Australasia managing director Chris Nicholl said the expected rental upturn across several asset classes was driving investor confidence.

"Confidence in the market is largely driven by the expected rental returns for prime office space, with Sydney, Melbourne, Perth and Brisbane all reporting expectations of a healthy increase over the first quarter of 2020," Mr Nicholl said.

"A forecast interest rate cut and the recent diminished tension in the United States-China' trade war' have also been attributed to lifting sentiment."

Prime retail values will remain relatively flat, with a 1 per cent increase predicted. But secondary retail values are likely to dip by 2.1 per cent, with Sydney and Melbourne recording the biggest dip of all the capitals at 2.2 per cent each.

In terms of rents, prime office rents are expected to jump by 3.2 per cent in the next 12 months while prime industrial rents will increase by 2.6 per cent.

Meanwhile, prime retail rents will grow by just 0.1 per cent, and secondary retail rents will dip by 2.2 per cent. Melbourne will be the worst hit in that category, with respondents predicting a dip of 3.7 per cent.

“While Brisbane and Melbourne are expected to see a slight increase in prime retail rents, the forecast remains bleak for Sydney and Perth,” Mr Nicholl said.

He added that there was little on the horizon to indicate a short-term turnaround for the retail sector.

“Retail continues to underperform other asset classes, and signs of recovery are looking increasingly unlikely, with the recent emergence of unforeseen problems such as the outbreak of coronavirus.”

Mayors want urgent rates help for fire-ravaged communities

Mayors from the state's fire-ravaged areas are pleading for urgent NSW government rate relief as council notices are sent to more than 1000 homes that no longer exist.

Councils are required under legislation to send the rate notices this week for the next quarter but Eurobodalla and Snowy Valleys mayors say it feels "heartless" to send the bills to those whose homes were destroyed.

The NSW opposition and the councils are calling for the state government to subsidise rates for at least the next two quarters as the South Coast and Snowy region recovers.

Eurobodalla mayor Liz Innes said it was heartbreaking that people who "have lost absolutely everything" will start receiving rate notices for properties destroyed by bushfires.

"It is a legislative requirement that rates notices are sent [each quarter] and we certainly don't feel good about sending out rates to people who have lost their homes," Cr Innes said.

"Right now, if we could waive it, we would, but we can't and it feels pretty awful when we have lost more than 500 homes and our community is in shock."

Cr Innes said she wanted government rate subsidies for the next 12 months because it would take her community years to recover and rebuild after "our whole shire was burnt out".

"The state government has been really responsive but bureaucracy is slow and not very nimble," Cr Innes said.

Snowy Valleys mayor James Hayes said the council had voted at its recent extraordinary meeting to waive fees for water, sewer and waste charges, as well as development applications for three years.

Cr Hayes' council area lost about 165 homes in the fires and Shoalhaven lost more than 300.

The council agreed to "approach the state and federal governments and the Insurance Council of Australia for assistance in covering the costs born by council through this initiative".

"We do want to stress to people that we have a hardship policy so we want people to talk to us because we want to help them as much as possible," Cr Hayes said.

"But we would be asking for any help we can get from the government because we can't just sit on our hands."

A spokeswoman for Deputy Premier John Barilaro, the minister responsible for the bushfire recovery, said he was visiting towns every day and “talking to victims on the ground about the issues they are facing in the aftermath”.

“The NSW government is committed to doing anything possible to help communities and local councils with disaster recovery and support, the spokeswoman said.

“The government is currently considering further financial options to support bushfire-affected communities across NSW.”

NSW Labor's local government spokesman Greg Warren said the government should be doing "anything and everything" to support communities.

"Many councils are in the process of issuing their quarterly rate notices and this is the last thing families need as they struggle to put their lives back together," he said.

"This is a financial burden that they simply shouldn't have to bear."

Mr Warren said it was "times like this that the state government needs to step up".

"That's why we're calling on the NSW Liberal Nationals government to subsidise the rates of fire-affected rate payers for the next two quarters," Mr Warren said.

Bushfire victims in NSW to get local council rates relief this quarter

The NSW Government will foot the bill for this quarter's council rates as part of their response to the bushfire crisis.

Key points:

- Bushfire victims will have their council rates waived this quarter, as part of the NSW Government bushfire relief plan
- The NSW Local Government Minister says expecting residents and business to pay rates after a bushfire would be "cruel and absurd"
- Fees for rebuilds, such as the BASIX certificate and planning reform fund, will also be waived

People who have lost their home or business will be able to take their rates notices to a Service NSW centre and rates will be waived within the next few days — or refunded if they have already been paid.

Sending out rates is a legal requirement for councils and the Minister for Local Government, Shelley Hancock, said changing legislation would have been clunky and time-consuming.

"It's a cruel, absurd situation where you send them a rates notice for a property that's burnt to the ground," Ms Hancock said.

"The Deputy Premier and Premier agreed immediately.

"They shouldn't be paying rates where they have no council services, no water, no sewerage, and it will be a while before they have a home to live in."

Ms Hancock said the proposal had been in the works for weeks, and noted that it took until now for the Premier to approve the deal.

Helping clean up

Premier Gladys Berejiklian said the State and Federal Government have committed to a 50-50 split for the cost of the clean-up from the bushfires.

The cost is expected to run into the hundreds of millions of dollars.

Construction company Lang O'Rourke has been contracted to manage the work, which is expected to be completed by mid-year.

Ms Berejiklian said people needed to register through Service NSW to have their property cleaned up.

"We hope on the ground to have people start the process physically within the next couple of weeks," she said.

"The planning process has already started.

"There are already plans for which areas need to be targeted and dealt with, and it won't just be site at a time. It will be multiple sites across the state."

The Federal Treasurer, Josh Frydenberg, said the cost would normally be undertaken by insurance companies as part of household cover, but now that the government will meet that cost it should leave more money to engage the rebuild.

"The money will be spent on removing the fire debris from around houses that have been destroyed, commercial buildings that have been destroyed, and a whole range of other services involved in the waste disposal as well," he said.
Fees waived for DAs

New South Wales Deputy Premier John Barilaro said the government would also offer fee relief to local councils for development applications in bushfire-affected areas.

"The NSW Government has been working closely with bushfire-affected councils and communities on options to facilitate the recovery and rebuilding process," Mr Barilaro said.

"I can confirm the NSW Government will waive applicable government fees, effective immediately, on all development applications related to dwellings damaged or destroyed in the recent bushfires.
"The fees include the BASIX certificate fee and the planning reform fund fee."

This meant local councils were not required to collect the planning reform fund fee when development applications are lodged.

Shoalhaven Council on the South Coast has already removed its development application fees for residents affected by fire.

Wingecarribee Council in the Southern Highlands is expected to follow suit when it holds an extraordinary meeting to discuss the issue on Thursday.

"This is what we've been working towards, to be able to give those fire-affected residents the best deal we possibly can," Wingecarribee Mayor Duncan Gair said.

"And as such this will now result in a zero DA fee to the residents who have lost their homes."