

The evolution and operation of recurrent property taxation

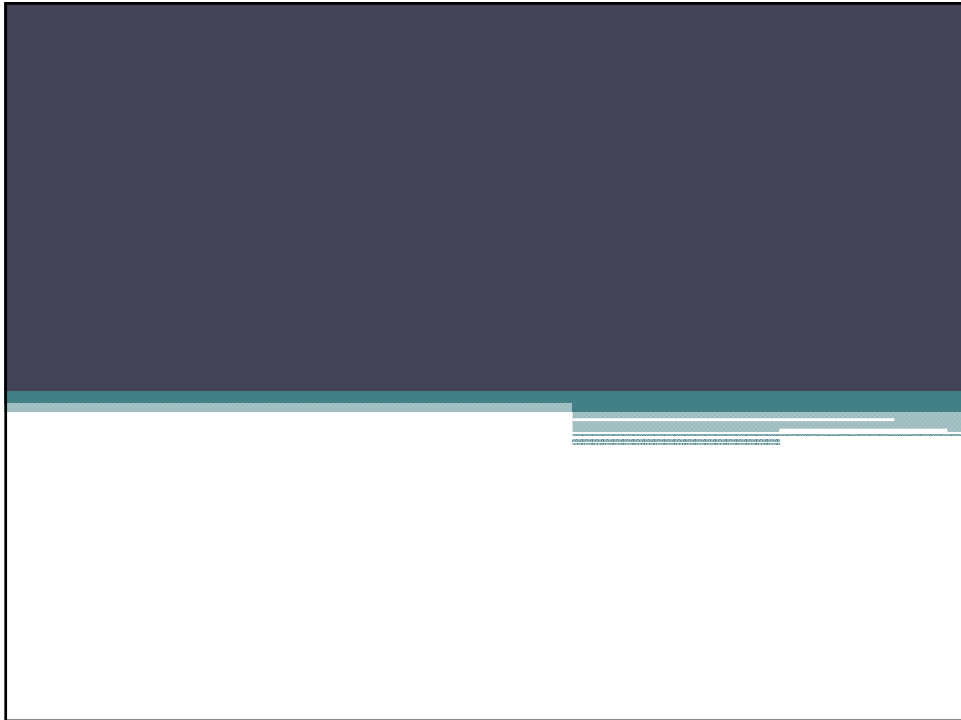
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Facing the Challenges – Building the Capacity

Sydney, Australia, 11-16 April 2010



Rate & land tax revenue as a percentage of total Local & State Government revenue

Source: IPART 2008

	NSW	VIC	QLD	WA	SA	TAS	Total
State Land Tax	11	20	8	8	TBA	TBA	11.8%
Local Rate	36.7	47.2	26	43.5	58	32.2	37%

Land Tax v. Council Rates

Council Rates 0.005 cents (total rate revenue pegged to wages)

	Base Amt 50%	Land Value 50% Low Value Hse	Land Value High Value Hse	
House	\$500 / house	\$500	\$800	\$1000

Land Tax 1.6 cents – Straight land value

	Land Value 100%
House	\$12,000

6

Rate Pegging in NSW

- Each year the Minister for Local Gov't issues a uniform state wide percentage increase that councils may increase total rate revenue by in that year. (Percentage linked to wage movement)
- 1/7/2008 3.6%
- 1/7/2007 3.5%
- 1/7/2006 3.5%

Methods of levying property tax

- **Hearth/Fireplace Tax – England 16th Century**
 - Bricking up removing
 - (Warmth tax)



- **Window Tax 17th Century**
 - Bricking up of windows
 - Tax on light & air



Methods of levying property tax

- **Room Tax**
 - Bricking up closets
- **Frontage Tax**
 - United States – 1861
 - Shotgun house
- **Second Storey Tax**
 - Camelback house



Annual tax on property - International

United States	Improved Value Split-rate (Mix LV & IV) out in 2000	Local / County Gov't Tax (Earmarked to Education)
New Zealand	Improved value cities & land value in non-urban areas	Local Gov't Tax
Scandinavia	Improved, land & service	Local & State (Cmwlth Coordinated)
United Kingdom	Res improved value 1993 Business AAV rental 5yrly	Local Tax (Centrally coordinated)

Primary issue with recurrent property taxation

Fisher 2002

- Principle place of residence / home
- Council rating is pegged to the amount most residents can afford to pay, being kept in line with income



Introduction of value nationally & internationally 20th Century

- Land / Unimproved Value



- Limited or no vacant land sales to measure land value
- Outdated base in urban locations
- Improved value better understood by tax payers

- Improved Value

Land Value Taxation & Valuation Issues

Land – Key attributes



- Location
 - Views
- Land area & shape
- Slope & access

Little change in these attributes



Improvements – Key attributes

- Size
- Condition & state of repair
- Design & layout
 - Functional obsolescence

Additional changing attributes

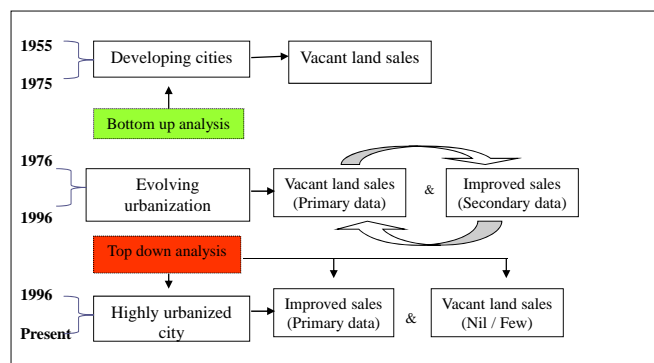


Accuracy of land value relative to sale price

NSW Ombudsman 2005

Acceptable Range	No of Districts with residential zones in range	% of Districts with residential results in range
85-100%	45	66
Less 85%	17	25
Above 100%	6	9
Non-residential land values	More conservative than residential land values	

Evolution of the deduction of land value in the Sydney Basin



Overarching Principles of 'Good Tax Design'

- **Simplicity, transparency, equity and efficiency**
- Does the tax dog wag the valuation tail or does the valuation dog wag the tax tail?
- Can the basis of value and its ***determination*** be easily understood by the taxpayer?

Land Tax Harmonisation

Mangioni 2006

	NSW	VIC	QLD	WA	SA
Threshold	\$352,000	\$200,000	\$450,000	\$130,000	\$100,000
Top tax rate	1.7%	3.5%	1.25%	2.5%	3.7%
Top tax rate value	\$352,000	\$2,700,000	\$3,000,000	\$5,000,000	\$1,000,000
Value definition	Land Value	Site Value	Unimproved Value	Unimproved Value	Site Value
Valuation frequency	Annual	Bi Annual	Annual with 3 year average	Annual	Maximum interval 5 yearly
Tax Legislation	Land Tax Management Act 1956	Land Tax Act 1958 & 2005	Land Tax Act 1915	Land Tax Assessment Act 2002	Land Tax Act 1936

Conclusion

Governing Issues	Authority	Objective
Land Tax and Valuation of Land legislation.	National legislation	A common Valuation of Land and Land Tax Management legislation. Removal of conceptual definitions of value and the adoption of uniform procedures and processes in the deduction of value in valuation of land legislation.
How should recurrent property taxation be administered	State & Commonwealth Government	The higher the tier of government, the more removed from local influences and the greater consistency in the administration of the tax and its base across the state & country. Opportunity for a central authority to establish harmonious assessment of this tax across the country
The base of the tax & its determination	Land Value – In line with the name of the tax	National consistency and uniformity in the name and determination of value.
Resources needed for the determination and sustainability of all taxation derived from property.	Shared Commonwealth / States property data bases	Provide gross building areas of all structures for the deduction of land & site values. More robust method of calculating liabilities for composite assets in CGT and GST Compulsory link from council DA register to LPI & GST disclosure Register of leasing and rent review data

Questions

