

**Submission
No 56**

INQUIRY INTO LAND VALUATION SYSTEM

Name: Name Suppressed

Date Received: 6/03/2013

Submission to the Joint Committee on the Office of the Valuer General
Inquiry into Land Valuation System

6 March 2013

Dear Committee,

I respectfully make this submission for your consideration in my capacity as an owner of a property located at [REDACTED] Bogangar/Cabarita Beach NSW [REDACTED]. The submission seeks to highlight what appears to amount to considerable variability and inaccuracy in the Unimproved Capital Values (UCVs) determined through the present valuation system; and this in turn leads to huge variability, and inequity, in the tax liabilities.

These points are illustrated, where applicable, through the UCV history, and General Rate history, pertaining to the aforementioned land. In terms of that land, high variability in UCV and a general pattern of overvaluation is shown. It is, inter alia, argued that, as a result of overvaluation, most notably in the 2001 UCV assessment) a hugely disproportionate General Rate burden has been imposed.

The submission notes areas where system reform may be needed to improve the accuracy of valuation outcomes, and importantly, the equity of resultant taxation liabilities. The submission concludes with some very brief suggestions concerning an alternative basis for revenue collection.

Yours faithfully

[REDACTED]

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Matters for Consideration

The valuation system (which underlies local and state government property taxes) is highly flawed because in spite of the professional skills of the profession of Land Valuers, the assessment of UCV is, by necessity, **a subjective process which inevitably results in extreme variations and inconsistencies in relative valuations** (e.g. essentially identical land parcels can, and do, have markedly different UCVs).

One concern relates to the comparability of sales evidence used to inform valuations in circumstances where little direct comparative evidence exists. It can be the case that directly comparable sales evidence can be scant, even non-existent, in localities with small markets – those characterized by low turnover in the property market. The sales evidence in small markets can also be distorted by a very small number of exceptionally high or low sale prices due to unusual circumstances. There may, in fact, be times when there only one or two sales of comparable land parcels may have occurred in a given locality. Hence, sales evidence can often extend to land in different localities, with different characteristics, which appeals to different market segments. However, application of these sales in assessing the value of a given property in another locality is not a simple task, and requires careful consideration of the characteristics of the localities and properties. The valuation process does not always take these factors into consideration, and a degree of subjective judgement is necessarily applied in the assessment of comparability and relative value. **The extent of subjective judgement is relatively higher in markets where scant direct sales evidence exists, leading to greater potential for inaccuracies.**

Further, **the valuation process does not automatically take into account unique issues relevant to the valuation of a particular parcel of land, and instead relies on landholder responses (objections) to determine the final valuation for a given parcel.** The initial UCVs issued by the NSW Valuer General do not seem to take account of specific matters that have been raised in prior submissions for a given parcel of land. This means that pertinent matters have to be restated by the landowner through lodgement of another objection, which is then reviewed by the NSW Valuer General's office to determine if the matters raised merit review by an independent Valuer. For instance, in our particular case, in spite of having raised specific matters pertinent to the valuation of our property in prior valuation cycles, we find ourselves having to restate the *same* matters, and going through the *same aforementioned process*, each time valuations are issued. In all cases bar one, the initial UCV has been revised downwards, indicating a **consistent pattern of overvaluation in initial UCV. This is also an incredibly resource-intensive and time-consuming process (for all concerned) and so would seem to be an area where systemic taxation reform could deliver substantial cost savings to government through the elimination of inefficient processes.**

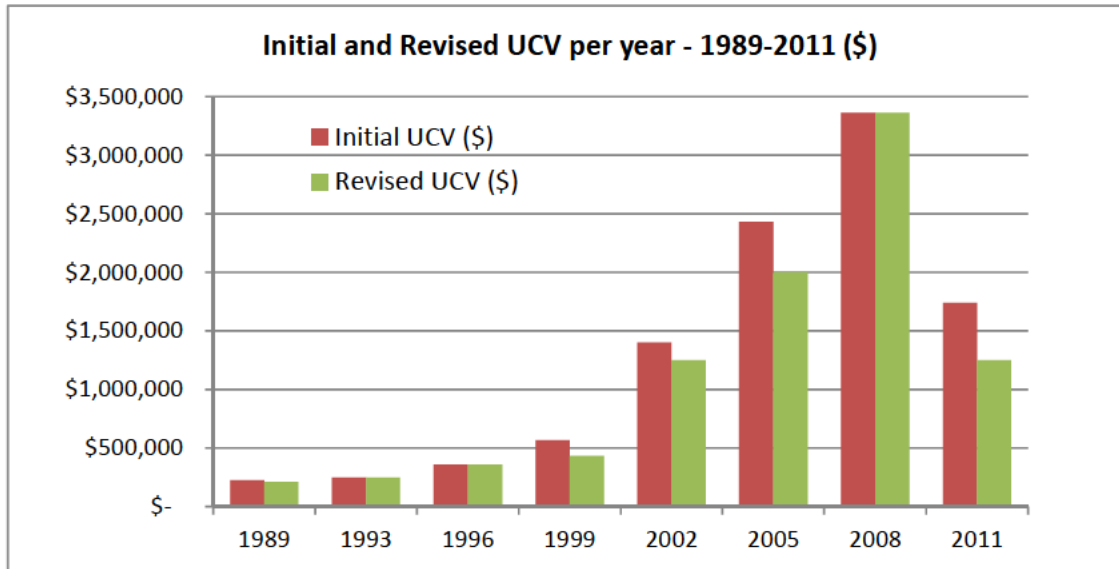
Furthermore, because the onus for instigating this process falls on the landowner, **a landowner who fails to undertake such process can quite conceivably retain an unreasonably high valuation for their property**, with consequential impacts for the quantum of their liability for payment of the applicable property taxes (refer tables and charts below). Presumably, the intent of the link between valuations and the levying of local and state property taxes is the idea that taxes are levied fairly (albeit that this is on flawed logic as outlined further below). However, the current valuation system can quite easily have inequitable outcomes due solely to the knowledge and the capabilities of the landowner in terms of the extent of their understanding the objection process, landowners' ability to recognize matters pertinent to

land valuation and landowners' capacity to formulate an effective submission to bring relevant matters to the attention of the NSW Office of the Valuer General. **In a system where the onus for the identification of valuation inaccuracies falls on landowners, those landowners who lack understanding of such matters or who are otherwise incapable of forming a valuation objection are likely to be disadvantaged relative to those landowners who are capable of such.**

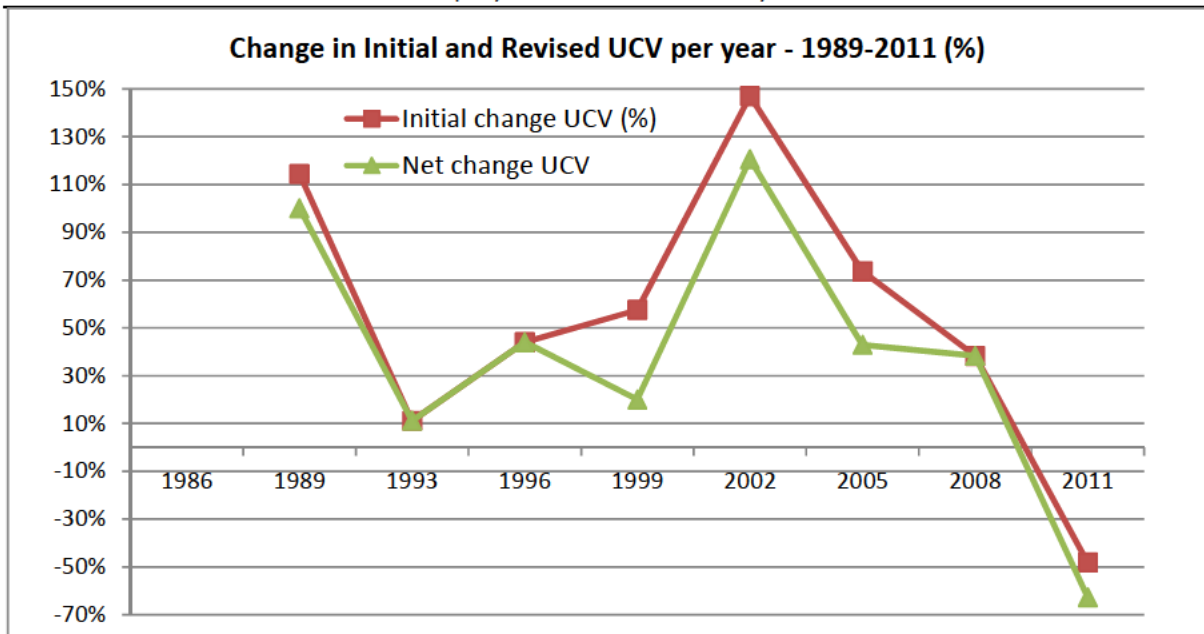
In our case for example, **there have been widely varying UCV assessments** for our land (**refer charts and tables below**). On several occasions the UCV determinations, particularly the initial UCVs, arguably bear little or no semblance to the reality of the actual real estate market. Further, it has also been the case that submissions (objections) detailing substantially similar matters pertinent to UCV have also seemingly received **different treatments** by the different Valuers who have been tasked with conducting valuation reviews at various times (also refer charts and tables below). Over a period in excess of 10 years, substantially the same set of specific matters has been raised in our submissions (objections) concerning the valuation of the same parcel of land over multiple valuation cycles. In every case, these same matters were considered sufficient to merit valuation review by an independent Valuer, and in every review bar one, the Independent Valuer appointed to conduct the review agreed that the matters raised in our submission warranted downward revision of the initial UCV assessment. However, in spite of the similarity of matters raised in these submissions, and the consistent acceptance of those matters as grounds for valuation revision, on one occasion an independent Valuer did not deem that those matters warranted downward revision of UCV. **This type of experience strongly suggests that the outcome of any review of valuation based on the specific matters raised by a property owner will depend largely on the *subjective judgement of the Independent Valuer tasked with conducting review in the specific instance*.** Given that the ultimate valuation outcome has substantial impacts in terms of the quantum of taxes paid by property owners (see for example, chart below illustrating impacts for our land), which indeed is the very basis for the valuation system, it is difficult to see how such a degree of subjectivity can be considered fair or equitable or even reasonable.

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Initial & Revised UCV following Objections – 1981-2011							
Year	Initial UCV		UCV Objections & Revisions				Final UCV
	Initial UCV (\$)	Change over prior period (%)	Objection lodged? (Y/N)	Revised UCV (\$)	UCV Change (\$)	UCV Change (%)	Net change UCV
1986	\$ 105,000						
1989	\$ 225,000	114.3%	Y	\$ 210,000	\$ 15,000	6.7%	100%
1993	\$ 250,000	11.1%	N	\$ 250,000			11%
1996	\$ 360,000	44.0%	N	\$ 360,000			44%
1999	\$ 567,000	57.5%	Y	\$ 432,000	\$ 135,000	23.8%	20%
2002	\$ 1,400,000	146.9%	Y	\$ 1,250,000	\$ 150,000	10.7%	120%
2005	\$ 2,430,000	73.6%	Y	\$ 2,000,000	\$ 430,000	17.7%	43%
2008	\$ 3,360,000	38.3%	Y	\$ 3,360,000	\$ -	0.0%	38%
2011	\$ 1,740,000	-48.2%	Y	\$ 1,250,000	\$ 490,000	28.2%	-63%

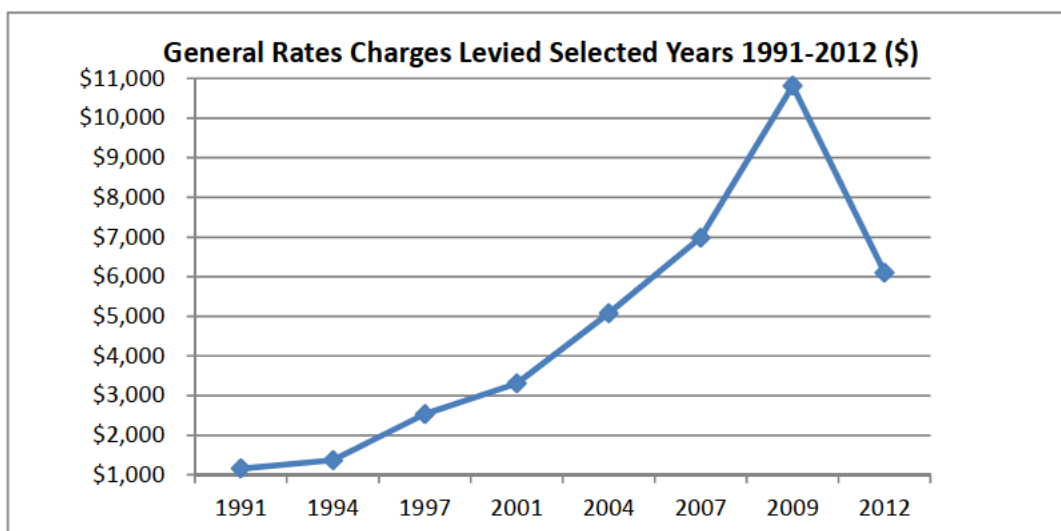


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UCV Implications - Tweed Shire Council General Rates Component Only - Selected Years

Year	General Rate Only	Change \$	Change %
1991	\$ 1,158	n/a	n/a
1994	\$ 1,368	\$ 2,10.36	18%
1997	\$ 2,529	\$ 1,160.29	85%
2001	\$ 3,306	\$ 777.35	31%
2004	\$ 5,072	\$ 1766	53%
2007	\$ 6,980	\$ 1,908	38%
2009	\$ 10,811	\$ 3,830.5	55%
2012	\$ 6,101	-\$ 4,709.7	-44%



In cases where an objection is lodged and a landowner is dissatisfied with the outcome, the landowner is (technically) entitled to seek recourse through an appeal to the NSW Land & Environment Court. There are however **significant cost barriers to a landowner using this avenue as a matter of recourse** in the event of land overvaluation. Such cost issues are particularly relevant when one considers that the NSW Government has almost unlimited resources to participate in such actions on behalf of the State. Landowners who submit an objection seeking reduced valuation are often doing so in order to reduce the quantum of property tax liabilities they will face. For residential owner-occupiers this is typically the impact in terms of local government tax (General Rate component). The minimum likely cost involved in engaging suitable professional assistance in bringing an appeal to the Land & Environment Court is in the order of \$10,000-\$15,000 (including Court fees, legal fees, expert witness fees and so on). In the event of a successful appeal however, there is no guarantee that the Court will award costs, and even if costs *are* awarded, they are by all accounts unlikely to meet the actual costs incurred by the appellant. In order for this exercise to be beneficial to the landowner, the likely costs of the Court appeal must be less than the reduced liability for General Rates as a consequence of lower land valuation from the Appeal. For this to be a 'risk free' exercise, the landowner must be confident of obtaining a favourable determination from the Court, and that such determination will reduce the valuation by sufficient amount to cover the costs associated with lodging the appeal. The practical effect is a significant barrier to the use of this avenue of recourse when an apparent overvaluation exists and when either: the appellant lacks sufficient financial resources to afford the costs of pursuing an Appeal; or, or the overvaluation is not sufficiently high that the costs of lodging the appeal would be offset by the benefits arising from the appeal being upheld. **Due to the costs associated with lodging appeals through the Land & Environment Court and the risk that costs will not be awarded, or may be only partially reimbursed, many landowners are effectively deprived from seeking recourse through this avenue for apparent overvaluation of their land. This leaves many landowners subject to the appraisal of the independent Valuer tasked with the initial review, which as noted previously, is subjective. This cost impediment is an area that merits review in order to give better practical effect to landowner access to this avenue of appeal (or alternative measures need to be implemented to address this problem).** In our particular case, we assert that **our land was massively overvalued in 2001** and we consequently incurred a far larger General Rates burden that we should have, however recourse to the Land & Environment Court was precluded by the aforementioned cost barrier, and consequent risk-return profile.

While the terms of the inquiry relate only to valuations as such, valuations form the basis for calculating the distribution of local government property tax (General Rates) and, in cases where a property is not a principal place of residence, NSW Land Tax. **The reliance on valuations for levying these taxes yields several problems in terms of the equitable distribution of taxation burdens and warrants consideration of the redundant underlying logic and the recessive and inequitable characteristics of resulting tax liabilities.** The present rating system broadly derives from old English land systems in which property was the key component of individual wealth and so levying taxes according to property wealth resulted in a fair distribution of the tax burden. However, this logic of a necessary link between the value of land ownership and wealth no longer applies due to the growth other asset categories and the huge expansion in financing instruments. The result is that today (as opposed to the 1800s) there is no necessary correlation between the value of land ownership and the net wealth of an individual: wealthy people can hold low value property (holding the majority of their wealth in other assets) and people with lower net

wealth can hold high value property (by investing all their wealth into property or through higher reliance on mortgage finance). Importantly, there is no necessary correlation between property wealth and capacity to pay property taxes, people on low incomes can hold high value property, and high wealth individuals can own lower value property. This type of issue arises in areas where property has become more appealing, and valuable, over time due to changed market trends such as the rising appeal of coastal locations over the last decade or so. Long standing residents in these locations, often retired people on low fixed incomes, suddenly find themselves faced with rapidly escalating valuations and rate burdens that bear no correlation at all to their financial capacity to meet them. This usually means such people are forced to sell their homes, often causing great hardship and stress.

Some other problems with the existing system include an apparent disconnect between local government planning policies (Local Environment Plans, Development Control Plans etc.) and the valuation process. Significant changes in local government regulations can substantially affect the development potential of land. The impact of these policies does not coincide with the valuation cycle. Furthermore, there does not seem to be any clear mechanism that forces local government to inform the Valuer General's office of policies that may have a significant impact on land values, and which therefore ought to be reflected in the UCV applicable to, and the quantum of General Rates levied on, affected land.

Suggested Revenue Reform

While a number of suggested reforms have been considered by various reviews, the majority have been limited to consideration of reform within the existing taxation frameworks at State and Local levels (base Rate components, flat Rate systems, purchase price Rate systems 'Californian system' etc.). The possibility of national reform through the Federal taxation system does not seem to have been properly considered in spite of being eminently logical. As one example (not the only possibility) a potential alternative system would be levying rates through the income tax system (through for instance something like the Medicare Levy) with state and local governments receiving rates income from the Federal government based on submission of annual budget requests. Some advantages of this type of system would include:

- Ease of implementation – Income tax structures already exist and are clearly understood by the populous. Local government budget processes already exist and would continue.
- Improved Efficiency – It would eliminate the need for large state and local bureaucracies associated with the current system and the significant problems in; the rendering of valuations, the objections processes, and uncertainties for local government in income determination.
- Improved Equity – Levying rates on income tax would mean that the current inequities of the land valuation based tax system would be removed and that capacity to pay would be linked to the amount of tax paid (those on higher incomes would pay higher tax contributions).
- Income Distribution Capacity and Policy Priorities – If a national system existed there would be capacity to manage national levies on income tax to fund geographically targeted policy initiatives. For example, a decision to encourage regional development could see a greater proportion of national levy allocated to target local governments for appropriate programs or works, or increases in the national levy to accommodate such (along the lines of Federal Assistance Grants to local government).