

**Submission  
No 27**

## **INQUIRY INTO LAND VALUATION SYSTEM**

**Name:** Professor Bridget Wilcken

**Date Received:** 26/02/2013

## A submission to the Joint Standing Committee on the Office of the Valuer General to the inquiry into the land valuation system

I am making this submission as a private person who has experienced the difficulties of coping with and reacting to property valuations made by the Valuer General. I have read the terms of reference of the committee, and wish to comment on several issues to be considered. The introduction to the information about the enquiry states that, "Modern principles of public policy require that tax systems are transparent, efficient, predictable, and equitable". This has not been the case for land valuations.

**Transparency of the system:** There is little transparency. **Most people have no idea how valuations are made.** I understand that in NSW mass valuation is used, with similar properties being grouped together, and considered likely to change in value in a similar way. However, these groupings are not well known or made public, and it could well be that a good deal of unfairness is bought about, but the public has no reasonable means of discovering. In the case of our property, a weekender on the Western foreshores of Pittwater, our component for valuation included Palm Beach, an extremely expensive area with normal roads and services not available on the Western Foreshores. In 2011, of 27 sales that were listed as having been considered when determining our land value, 22 were Palm Beach properties which could not be thought comparable to Western foreshore properties. This year no Palm Beach properties were listed, so possibly our "components" have changed, but there has been no other indication of this.

There is also no indication on **what aspects of the property are taken into consideration.** Apart from the general geographical region, this is likely to include area of the site, and presumably access to public transport, schools, and shops, as well as closeness to the harbour or other water and views. Not all these things may be known or considered in mass valuation. With regard to area, in our case this may be misleading, as the property backs onto a national park, and approximately one third of the site area is extremely steep and rocky. It would be better for us if we did not own this unusable portion, but it clearly inflates our land area and so probably affects our valuation.

**There is no indication as to how buildings and other improvements on an individual property are valued, so as to result in an estimated land value** derived from the sale of a house etc plus the land. It is not clear if these are on-site valuations, and if they are not, how the valuation is arrived at.

**Predictability:** In 2007 there were quite unexpected rises in valuations. In the case of our weekender the valuation was 50% higher than the previous year. More shocking then was the land tax for the following year, which was **over three times the tax for any of the previous six years.** This is illustrated in the **second attachment** . We were luckily able to pay the required amount but such unpredictable movement could be expected to put people into great difficulty, as there is no way to forecast the tax liability.

**Equity:** Land tax is a wealth tax, the concept of which is much favoured, and is usually considered to contribute to equity. It is readily argued that richer people should pay more tax than others. However, the valuation system does not seem to result in equity for several reasons.

Firstly, **the basis for the tax is land, and there is no consideration of the "improvements" on the land.** Thus at present a person with a second property with modest building on a parcel of land (it might be that a small development is entirely suited to the overall

environment) will pay as much land tax as a person with a similarly valued second property parcel of land on which there are several million-dollar-plus “improvements”. A tax on the whole worth of a second property would overcome this particular issue, and might be easier to administer.

Secondly, **the threshold system leads to an extremely rapid escalation of land tax** on modest properties with values falling above the threshold. For example, in the current tax year, a second property valued at \$400,000 is tax exempt. One valued at \$500,000 would be taxed at \$1,604; at 600,000 the tax would be \$3,204, at 800,000 the tax would be \$6,604, and a 1 million dollar land parcel would attract tax of \$9,604 – almost 6 times the amount levied on a property of half the value. **This means that the necessarily approximate nature of the mass valuation system can have a very large effect on taxes levied.**

Thirdly, it is difficult to understand the land tax system. **The objection guidelines are also difficult, and require much knowledge and expertise to navigate successfully.** The less well-off are not as likely to engage professionals to do this task as are the truly rich, who certainly can and will.

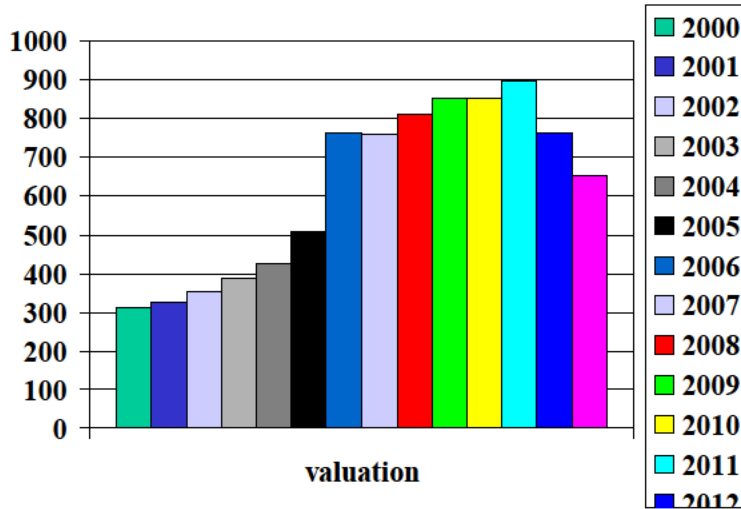


Professor Bridget Wilcken AM



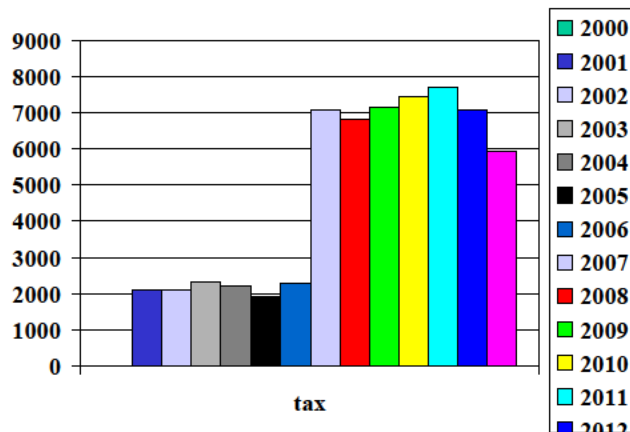
Neutral Bay, NSW 2089

## Bridget Wilcken – submission file 2



**Illustration of unpredictability. Sudden increase in valuation (+50%) , followed by a tripling of land tax payable compared with the previous 6 years.  
Property in Pittwater - 999092**

**Valuation by year (\$1,000)**



**Land tax payable (\$)**