

**Submission
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INQUIRY INTO LAND VALUATION SYSTEM

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SUBMISSION

Inquiry into the NSW Land Valuation System

To:

Joint Standing Committee on the Office of the Valuer-General
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From:

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Introduction

Sub-national government in Australia levies a recurrent property tax at the state level as a land tax and at the local level in the form of council rates, these are collectively referred to as recurrent land taxes. The revenue collected from these combined sources in Australia is at the lower end of the advanced OECD range of countries as a percentage of GDP. Further it was highlighted by Australia's Future Tax System 2009, (Henry Review) that the States (inclusive of local government) should increase revenue from recurrent land tax and reduce less efficient transfer taxes on land and property.

Bases and purpose of the tax

Land value as the base of State land tax plays an important role, in addition to raising revenue, which should not be discounted. It is a neutral and efficient base which is not distorted by improvements of varying scale, type, age or structures that exist across locations of similarly zoned land, which are not highest and best use. To this end the retention of a tax on land by the States is the most efficient and least distortive basis of value. Further, land or site value is the basis used to assess state land tax across Australia.

In NSW council rates and land tax are both determined on land value¹, hence New South Wales has the narrowest single base option for assessing its recurrent taxes of all six States, see Table 1. In order for recurrent property tax to develop in NSW, it is important that options (other bases of value) are available for the assessment of local government rates in NSW. The diversity of urban form across the 152 local government areas of NSW require a diversity of rating options as well as bases of value on which the ad valorem component of the tax is assessed.

Tax design and taxpayer understanding

The operation of land tax in NSW has been reviewed on several occasions in which the valuation of land among other matters has been identified under the principles of 'good tax design.' IPART (2008), see Figure 1, has highlighted difficulties in the design of land tax, these factors include: 1) poor performance against the criteria of transparency and simplicity, in which concern for taxpayers understanding and limited information as to when a property exceeds the threshold and subsequently becomes liable for land tax has been raised, 2) The three year averaging of values² has added a further level of complexity to the tax and 3) Horizontal equity of value within and across locations is important (Ombudsman 2005).

Earlier reviews of land tax and the valuation of land have highlighted issues at the conceptual and operational levels. In contrast to the broader comments of the Nile Inquiry (1998), the Walton Review (1999) and Ombudsman Inquiry (2005) particularised problems with value and more specifically the valuation process, these are summarised in Table 2. These matters are important as recurrent land tax is a visual tax, and is paid directly by property owners. The ability to understand how the tax is determined, followed by how the valuation of land is derived is of high importance to property owners.

Objectives of reform

In order for the review of the valuation process to be relevant, its primary objectives must first be transparent in order for it to be accepted by the taxpaying public. Value is a contestable concept and

¹ s6A of the Valuation of Land Act 1916 NSW.

² IPART NSW 2008, Review of State Taxation: Report to the Treasurer.

will always be open to challenge unless the level and degree of its contestability is quantified. Under the current valuation of land legislation, the broad unquantified definition of value is the starting point for contestability. This is further amplified by the one fit definition of value for both rating and taxing purposes and the multitude of land uses which are assessed under this conceptual definition in NSW.

A revised Valuation of Land Act which addresses the needs of government (State and local), which is simple and transparent for both valuers and tax administrators to apply and for taxpayers to understand is important. The base or bases of value must be efficient, robust and sufficiently articulate to deliver their intended outcomes, with little distortion resulting from either economic or administrative inefficiencies. The mechanisms and frequencies for the revaluation of the bases of value must be equitable, i.e. consistently determined and applied within and across jurisdictions.

The review should be sufficiently macro in nature to minimise subsequent carve-outs or piecemeal changes which incrementally dismantle the objectives and principles established by the Review. As far as possible, provisions within related legislation including Land Tax Management Act, Heritage Act, Local Government Act and Environmental Planning and Assessment Act, which impact on the determination of value should be included as part of the review.

Rating and taxing is the domain of state and local government, however the principles and more importantly the practices used to determine the basis of value should be uniform across Australia. It is highly desirable for NSW to work with adjoining states in formulating consistent valuation practices and procedures in the valuation of land or any other bases of value envisaged in modernising land valuation and taxation.

Table 1
National comparison of bases for assessing land tax and council rates in Australia

Property Valuation methods permitted to be applied

Group^a	Method	NSW	Vic	Qld	WA^b	SA	Tas	NT
A	Assessed Annual Value (AAV)						√	
	Annual value (AV)					√ ^c		√
B	Capital improved value		√					
	Capital value					√	√	
	Improved capital value							√
C	Gross rental value (GRV)				√			
	Net annual value (NAV)		√					
D	Site Value (SV)		√	√		√ ^c		
	Land value (LV)	√					√	
	Unimproved capital value (UCV)							√
E	Unimproved value (UV)				√			

^a Various terms used across jurisdictions to describe methods that are essentially the same and these are grouped together.

^b Two methods are used in Western Australia, but these are restricted by land type: UV for rural only and GRV for non-rural only.

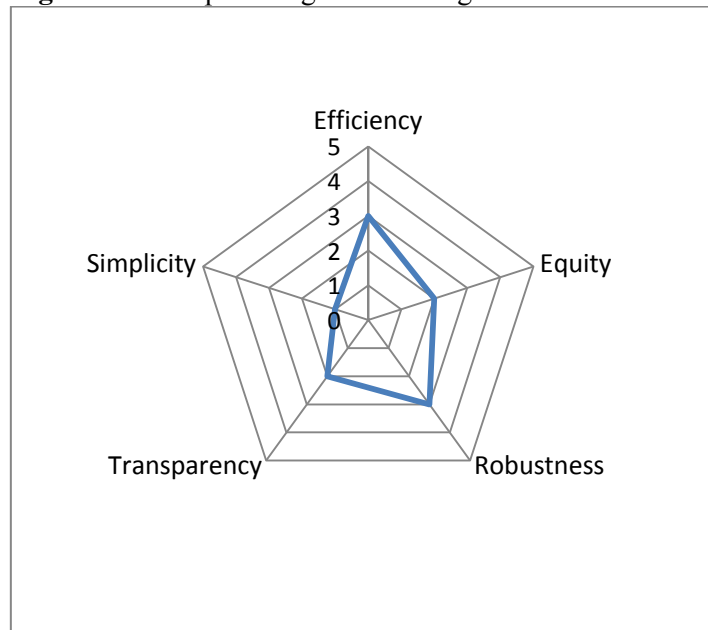
^c The AV and SV methods can be used in South Australia if the council declared rates for that land on that basis for the previous financial year, or if the council declares rates for that land on the basis of capital value for the previous three financial years.

Table 2: Summary of past reviews of state land tax under principles of ‘good tax design’ encompassing value

	Report on inquiry into changes in land tax in New South Wales (Nile Inquiry 1998)	Report of inquiry into operation of valuation of land act (Walton Review 1999) & Improving the quality of land valuations issued by the Valuer General (Ombudsman Report 2005)
Economic Efficiency	Land is immovable and cannot affect the supply of land. Not all land owners are affected by the tax due to various exemptions and thresholds	Not covered or mentioned in these reports
Equity	Vertical equity, the tax scored high in principle due to relativity between value and presumable income. But low due to ability to mix the portfolio of assets. Horizontal equity, the tax scored low due to imposing the same net worth but with different tax burdens.	Disparity in the sales analysis process and the adoption of conservative values in locations with limited or no sales evidence. This resulted in compounding horizontal inequity of values across locations. Issues with simplicity and transparency are also implicit in the points highlighted under simplicity & transparency.
Simplicity	The tax scores high due to the then single tax rate in NSW imposed on aggregated land values	No method of determining the added value of improvements in deducing land values of improved sales. No information provided for concessions and allowances relevant to land values provided to owners.
Transparency	Not covered in this report	No information provided to taxpayers about the sales used to determine their land value. (Partially addressed since 2005). No details provided to tax payer as to how improved sales were analysed back to land value.

Source: Nile Inquiry 1998, Walton Review 1999 & Ombudsman Inquiry 2005

Figure 1: Principles of ‘good tax design’



Source: IPART NSW 2008