Submission No 16

INQUIRY INTO LAND VALUATION SYSTEM

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SUBMISSION
INQUIRY INTO THE
LAND TAX VALUATION SYSTEM

M A D D E N

A S S O C I A T E S

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GENERAL

Land Tax for the year 2007-2008 was $ 1,997,000,000 and will be larger now, despite the downturn in economic circumstances in the State. The tax is payable by some three hundred thousand of the State's seven million people, considered by some to be the wealthy, but in reality the tax is a tax on the poor, raised on the basis of valuations produced by the Valuer General, which appear not to reasonably reflect the real value of land in the State. Values in individual streets vary greatly, and the only thing that can be guaranteed is that land valuations will not go down even in the present market down-turn.

To summarize, I believe the tax is unjust and needs to be eliminated or severely reformed to be more equitable. The injustices of the present Land Tax system can be noted as follows :

- Land Tax is an inequitable tax as it is levied against only one class of asset ; Land, and then only some land holders. Shares are unaffected. It is the only tax levied on just having assets. It is a tax that was to be removed with the introduction of the GST.

- Land tax is a wealth tax on the so-called rich which is redistributed to the so-called poor. It penalizes those who provide for themselves and is a poor socialist or communist style tax which has no place in capitalist systems.

- Land assets are again taxed on sale with a Capital Gains tax, in the same way that shares are taxed, so Land Tax is double taxation. The tax represents some 11.5% of State revenue with no contribution from the keeping of share assets to State revenue.

- Land Tax is a tax on everything. Every businessman or woman who owns commercial or residential property over a certain value must pay the tax, which 'if possible' is passed on to those who rent property or through the cost of prices charged for goods and services. As an example, the Banks own or rent buildings and their costs (including Land Tax) are reflected in the fees charged to their Clients. The Grocery Chains similarly own or rent buildings, and their costs (including Land Tax) are reflected in the price of goods for sale. Those who pay residential rents are also in the same way paying Land Tax.

- Land Tax is an insidious tax as the State Government can increase the rate of tax payable with the stroke of a pen, as was recently done by Nathan Rees (State Labor), but Leases, particularly Commercial Leases are written in years. Commercial property owners are similarly reluctant to increase rents for their tenants to cover the tax as they are straining to survive in the present downturn.

- Land Tax is a tax on the self-funded retirees which through their diligent accumulation of wealth, provide for their own retirement. They do not draw pensions but are being forced by this tax to consider the sale of their assets for survival.

- Land Tax is a tax on development. Developers must pay the tax for holding land while approvals are obtained, and during the construction and selling process, and this cost is reflected in the sale cost of the housing and commercial buildings. This cost can be substantial and prevents small developers in particular from participating in the market which has resulted in downturn in building investment and construction.

- The tax unfairly penalizes the holders of single or two storey buildings against multi-storey buildings as the unit land value is less than for high rise or unit style buildings.

Finally, the valuation system used as the basis for Land Tax is insidious as it is used as the basis for water and Land rates which increase overall imposts on the holding of Land and there is a limited and unfair reassessment of valuations available.

The State Government allows Council's to increase its rates each year which is compounded on top of the increase of the Valuer General's increase in UCV. Thus there is a double whammy and in some cases the land value can actually exceed the actual improved value of the allotment.

The system is extremely unfair and needs to be reconsidered as a whole.

A PERSONAL EXAMPLE

Land tax is becoming unaffordable to me as an average investor.

I have a small property portfolio and the total value of my land taxable properties exceeds $3,500,000, of which some $1,100,000 is taxed at 0.02%. My Land Tax bill for 2011 is $ 54,536.00 which is grossly excessive and is restricting my ability to maintain my buildings properly and to consider further investments in NSW. I would be far better off investing in a different State in the future.

The following illustrates the increased impost of the tax in recent years on my properties from the Valuer General :

2004	$17,441.59
2005	$14,421.96
2006	$15,938.61
2007	$14,013.82
2008	$50,132.00
2009	$48,943.40
2010	$51,883.20
2011	$54,536.00

I have two heritage listed properties in Balmain and list the valuation increases over time which has resulted in ever increasing Land Tax.

Property 1

[redacted] Balmain

Valuations

1/7/1999	1/7/2002	1/7/2005	1/7/2008	1/7/2011
350,000	502,000	600,000	715,000	945,000

This represents the following percentage increases in values :

1/7/1999 -1/7/2002	152,000	43.40%
1/7/2002 -1/7/2005	98,000	19.50%
1/7/2005 -1/7/2008	115,000	19.10%
1/7/2008 -1/7/2011	230,000	32.17%

The above between 1/7/1999 -1/7/2011 represents and increase in unimproved land values of $ 575,000 or 170% in just 11 years, and the value jumps appear to have no logical basis. The value per square meter is $ 945,000/417.67 or $ 2,263 per square metre.

This just has not happened. The valuation increases appear artificial and represents in my case, at 0.02% an additional increase in Land tax of $11,500 on this property alone, plus additional costs in Land and Water rates which cannot be passed on to the tenants. We are restricted to CPI increases of around 2.5% per annum.

The building is rented at $ 110,000 per year to a single tenant so that the increase in land tax alone between 1/7/1999 -1/7/2011 represents about 10% of the income from the building.

Property 2

[redacted] Balmain

Valuations

1.7/1999	1/7/2002	1/7/2005	1/7/2008	1/7/2011
235,000	435,000	500,000	573,000	793,000

This represents the following percentage increases in values :

1/7/1999 -1/7/2002	200,000	85.10%
1/7/2002 -1/7/2005	65,000	14.94%
1/7/2005 -1/7/2008	73,000	8.60%
1/7/2008 - 1/7/2011	220,000	38.39%

The above between 1/7/1999 -1/7/2011 represents and increase in unimproved land values of $ 558,000 or 238% in just 11 years. The value per square meter is $ 793,000/318.80 or $ 2,487 per square metre.

This just has not happened. The valuation increases appear artificial and represents in my case, at 0.02% an additional increase in Land tax of $ 11,600 on this property alone, plus additional costs in Land and Water rates which cannot be passed on to the tenants. We are restricted to CPI increases of about 2.5% per annum.

The increases noted above are also erratic and inconsistent and on enquiry with the Valuer General's Department they can offer no perceivable logic in the formation of increases in value.

The building is rented as offices to a number of tenants as we cannot in this difficult market find a single tenant and last year the rent was $ 117, 929 so that the increase in land tax alone between 1/7/1999 -1/7/2011 represents $ 11,160 or about 10% of the income from the building which we cannot recover from transient tenants.

VALUATION METHODS

The present method of valuations is not transparent nor understandable. Different properties in adjoining streets and on similar parcels of land can have vastly different valuations.

On the basis that unimproved land values on the Balmain Peninsula should be generally the same per square metre as land is just land without improvements, it is interesting to note the following land rates per square metre from the general valuation sales report from Valuer General in the year 2010 :

[redacted]	Balmain	965,000/169.3	$4,105psm
[redacted]	Balmain	980,000/313.3	$3,128psm
[redacted]	Balmain	680,000/150.3	$4,524psm
[redacted]	Balmain	1,500,000/382.6	$3,920psm
[redacted]	Balmain	1,300,000/330.1	$3,938psm
[redacted]	Balmain	785,000/218.5	$3,592psm
[redacted]	Balmain	1,050,000/145.4	$7,216psm
[redacted]	Balmain	1,390,000/145.5	$9,553psm
[redacted]	Balmain	662,000/170.7	$3,878psm
[redacted]	Balmain	730,000/223.0	$3,273psm
[redacted]	Balmain	850,000/271.9	$3,126psm
[redacted]	Balmain	565,000/93.0	$6,075psm
[redacted]	Balmain	865,000/278.2	$3,109psm
[redacted]	Balmain	400,000/145.4	$2,751psm
[redacted]	Balmain	583,000/126.5	$4,607psm
[redacted]	Balmain	900,000/265.6	$3,389psm

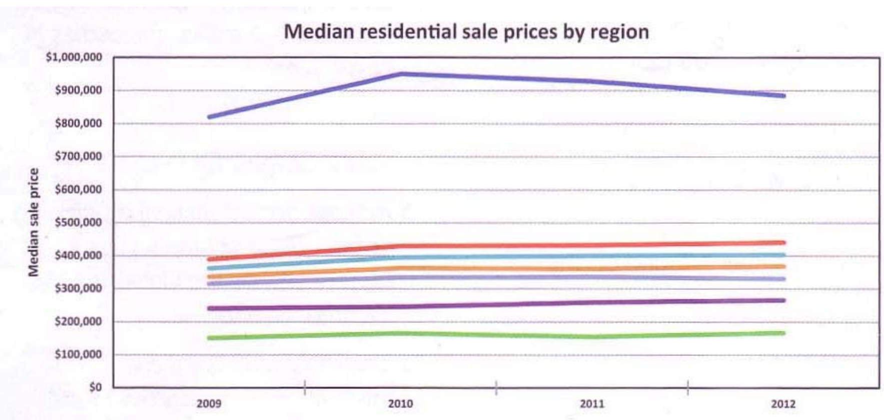
(See attached lists)

It can be seen from the above that the values per square metre in Balmain vary by as much as $ 6,000 per metre in this small sample. I would be interested in the logic used to provide these values and in the case of two properties in the same street, [redacted], the UCV varies by $ 2,337 per square metre.

Valuations are supposed to represent the unimproved value of the land not some interpolation from the improved value of the land.

VALUATION INCREASES

From the newsletter issued from the Valuer General with my annual Land Tax bill the following graph was attached which illustrated that between 2009 and 2011 UCV values have marginally increased, but clearly the graph does not indicate increases in land values in the range of 30%. In fact the graph indicates a fall in from 2010. Why then have the UCV values increased so much ?



HISTORIC BUILDINGS

There is also no justification or logic in the conessions given to historic buildings. In the examples of my properties above, both of my historic buildings are in the same street on similar sized allotments but the UCV difference is $152,000, and in enquiries to the Valuer General, we have asked for the method of assessment and the concessions made. The reply was that the concession is built into the UCV value and they could offer no methodology.

As noted earlier, my two heritage listed properties have UCV values as follows :

[redacted]	$ 2,487sm
[redacted]	$ 2,263sm

The difference is $ 224 psm. Again I would like to see where the logic is in the figures, and in addition where is the concession for the heritage listings when the land value per sm is about equal to the property in [redacted] with a value of $ 2,751 per meter, which is not heritage listed. I do not understand.

OBJECTION PROCESS

The land value objection guide issued by the Land and Property Management Authority permits objections to the land value determined for a property, and sets out the reasons for objection, and individuals ….'must provide evidence to support (the) objection. Strong supporting evidence is sale prices of comparable properties'. Why is this so ? Is it not the case that the system is based on UCV's ! So what difference does the sale price of a property have to do with the UCV, the sales figures are based on improved capital values.

As noted above, as there appears to be no logic in the setting of UCV values, the whole system is flawed and therefore the objection process is flawed, as recent sales figures do not reflect comparable UCV values and therefore it is impossible to compare properties in a logical manner.

Further, in the case of historic properties in order to try and make some comparision you need to compare the property with other similar heritage sales figures in the locality, and they simply do not come on the market that often.

For the past several years I have considered lodging objections but can find no similar local properies which are comparable. The system is clearly unfair and flawed.

TAX THRESHOLD

Another unfairness about the tax is the increase in the threshold. In the year 2011 the threshold was $ 396,000 but in 2012 it is $ 406,000 which represents a 2.52% increase, however the increase in the UCV values was in excess of 30% which means that a greater and greater tax burden is placed on those who have to pay the tax.

WHAT TO DO ABOUT THE TAX ?

The tax should be eliminated, but realistically, the Government of NSW is broke through mismanagement and needs the money, and the inequitable Land Tax system is seen as an easy tax as land assets are fixed in place and cannot be moved, but it is extremely discriminatory.

I believe one or more of the following solutions to be available for Government consideration :

- Scrap the tax and look for other forms of revenue elsewhere.

- Eliminate the double taxation on properties. Either Capital Gains Tax or Land Tax must go. The present system is completely inequitable and discriminative.

- Broaden the tax base so that the tax includes shares and all real estate so that the tax is at least equitable, allowing the threshold to be set to manageable levels. All land owners and share holders should pay an **ASSET** tax, so that the tax burden on one single group of tax payers is eliminated.

- Impose a tax on commercial returns after maintenance costs. This would then be a tax based on the income from properties and allows vacancies and maintenance to be taken into account.

- Assess properties on the basis of building area to the site area. This would reduce the extra impost on single storey buildings as opposed to multi-storey and unit style buildings.

- Reduce the percentage of revenue on the basis of land value as land values increase, capped in line with the CPI increases.

- Finally, a complete review of the valuation system is required as the land assessment process is arbitrary and clearly not based on UCV values, but some corrupted system which uses improved capital values to somehow determine UCV values. .

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[redacted]

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