

**Submission  
No 78**

## **INQUIRY INTO LAND VALUATION SYSTEM**

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Matt Kean MP  
Committee Chair

**PARLIAMENT FOR NEW SOUTH WALES  
JOINT STANDING COMMITTEE ON THE OFFICE OF THE VALUER GENERAL  
INQUIRY INTO THE LAND VALUATION SYSTEM**

Dear Mr Kean,

Thank you for inviting the International Property Tax Institute (IPTI) to provide a submission to the above Committee.

**The International Property Tax Institute**

It may be helpful if I explain a bit about IPTI so the Committee has a clear understanding of the background to our organisation.

IPTI is a not-for-profit organisation which specialises in the provision of impartial, objective advice and training in respect of all types of property tax, but IPTI has particular expertise in the type of property tax you are investigating, i.e. one where value-based assessments are provided as the basis for collecting annual tax revenue to support the provision of services by government at local and/or state level.

IPTI has been in existence for over 15 years and has a membership which consists primarily of an international network of professionals who are experts in all aspects of property tax including policy, administration, assessment, collection and enforcement.

IPTI has members and stakeholders who work in (a) government at national and local level; (b) large corporations which are global taxpayers; (c) firms of professional practitioners who represent corporate and other taxpayers; and (d) academic institutions dealing with valuation and property tax matters.

If you would like to learn more about IPTI, please visit our website at [www.ipti.org](http://www.ipti.org).

I should add, in the interests of transparency, that the present Valuer-General for New South Wales, Phillip Western, has been a member of IPTI for many years and has participated as a speaker in many of our conferences, workshops and other events where his professional knowledge and experience has been greatly appreciated. However, he has had no part to play in the preparation of this submission.

## Terms of Reference

For convenience, the Committee's Terms of Reference are set out below as they form the basis for the views submitted by IPTI.

1. *To investigate the extent to which the current land valuation system delivers transparent, efficient, equitable and consistent outcomes for stakeholders. This includes monitoring and reviewing the exercise of the Valuer General's functions with respect to land valuations under the Valuation of Land Act 1916 and the Land Tax Management Act 1956, including:*
  - a) *Volatility in land valuations;*
  - b) *Complexity in the valuation system;*
  - c) *Drivers of inefficiency in the system including market distortions, and administration and compliance costs; and*
  - d) *Any inequity in the valuation system*
2. *To make recommendations on the issues above, including but not limited to:*
  - a) *Any legislative changes required;*
  - b) *Changes consistent with best practice in comparable jurisdictions;*
  - c) *Measures to improve transparency within the system;*
  - d) *Measures to achieve greater efficiency within the system;*
  - e) *The need for possible amendments to the Valuation of Land Act; and*
  - f) *A cost-benefit analysis of proposed changes to the system.*
3. *This is noting that the focus of the inquiry is not directed at revenue but the valuation system.*

We have also had regard to the contents of the Issues Paper that was sent out with your invitation. It is unnecessary to include the entirety of the Issues Paper in this submission, but we note the following paragraph in particular:

*“There have been a number of issues identified with the current system: the language and structure of the Valuation of Land Act 1916 (NSW) has been described as out-dated; property holders sometimes have difficulty understanding their valuation; a number of court decisions*

*have highlighted concerns regarding the proper construction of the Act; and the Valuation of Land Act 1916 has been the subject of a number of ad hoc amendments creating unnecessary complexity in the legislation. The Committee has therefore resolved to undertake a full review of the valuation system.”*

It may be helpful if we provide comments on each of the main points contained in Section 1 of your Terms of Reference separately.

#### **a) Volatility in land valuations**

It is inevitable that assessments based on market values, whether of land alone or land with improvements (i.e. developments such as buildings, structures, etc) will vary depending upon market conditions.

For example, recent revaluations in the United States of America have produced sometimes quite dramatic changes in assessed values depending upon the date of the revaluation and the period that elapsed since the time of the preceding revaluation. Many jurisdictions have experienced significant reductions in the level of assessed values due to the adverse impact of the global recession.

The Committee will no doubt be aware that it is not the absolute movement in assessed values that should be considered when looking at the impact of revaluations; it is the relative movement in values between one sector of the market and/or between different geographical areas that is important.

As already indicated, volatility in assessed itself is not a particular issue; it is the impact of that volatility on property tax bills which is important. Where necessary, that impact can be mitigated by introducing a scheme for phasing in changes over a period of time. An example of how this can be achieved can be seen in recent revaluations of commercial properties in the United Kingdom where “transitional relief” was introduced to reduce what might otherwise have been large movements – upwards and downwards – in property tax bills (known as “business rates” in the UK).

The most effective way to deal with volatility in property tax assessments is to have regular revaluations which ensure that assessed values keep up to date with market values. Ideally, revaluations should take place annually (as they do for example in Hong Kong) but, if that is not possible, they should be at no more than three-year intervals.

Data held by IPTI in respect of NSW indicates that, for local government rating, new land values (approx 880,000 annually) are issued by the Valuer-General on average once every 3 years. For State land tax purposes, we understand that land values (approx 2.46 million annually) are issued by the Valuer-General annually to the Office of State Revenue.

## **b) Complexity in the valuation system**

Where the basis of assessment is open market value, some degree of complexity is unavoidable as prices paid in respect of actual transactions in the market on which assessed values are based, particularly for certain types of specialised properties, are themselves the subject of complex calculations.

The true level of market value can only be found by detailed analysis of actual transactions and this process can be quite complex in some cases.

For many common types of property, e.g. most residential properties, standard retail units, office blocks, etc, the valuation approach for open market value (rather than land value only) can be quite straightforward as there is plenty of evidence available on which to base assessments. But complexity increases when considering rather less common properties such as hotels and guest houses, and much more complex valuations may be needed for more unusual properties such as airports, power stations and telecommunication networks.

Although on the face of it, using land values may appear to reduce the level of complexity that is required if buildings and structures are included in the assessment basis, in fact using land values creates an additional level of complexity as many of the values used in the assessment process have to be arrived at by apportioning actual sale prices between land and buildings.

We note from the Issues Paper that there is concern over the fact that complexities have arisen in connection with how to deal with “mines and minerals, properties that are the subject of heritage listings, archaeological sites and wildlife districts.”

In our experience, these types of property create problems for all ad valorem property tax systems simply because there is little or no market evidence from which to derive assessed values using the comparison approach. However, in such cases, professional valuers have other valuation approaches they can utilize, e.g. the income approach or the cost approach, which are capable of producing acceptable results.

The Committee may be interested to know that IPTI has recently provided technical assistance and training to Jamaica which is one of the few other countries in the world that operates a land value only property tax system similar to NSW. We have specifically discussed with officials in the Jamaican National Land Agency how to address some of the complexities of valuing specialized properties.

## **c) Drivers of inefficiency in the system including market distortions, and administration and compliance costs**

Our understanding of the system in NSW is that it has been recognised in a number of surveys

s to be a relatively low cost system that delivers acceptable quality assessments.

IPTI undertook a series of benchmarking exercises over recent years and the NSW system compared favourably to many other global property tax systems that were included in these exercises.

As far as IPTI is aware, there are no distortions created by the NSW land valuation system and administration and compliance costs are no higher than similar systems elsewhere.

With regard to distortions, in general, so long as a consistent basis of valuation is applied and accurate assessments are produced, there should be no market distortions as the system is being evenly applied across the entire property sector. Distortions tend to be associated with differential treatment, e.g. in tax rates or other aspects of tax policy, which is reflected in market values.

#### **d) Any inequity in the valuation system**

As we have already indicated, there should be no inequity in the valuation system so long as a consistent basis of valuation is applied and the assessments are accurate.

Inequity arises when inconsistent approaches are adopted or assessed values are inaccurate. So far as IPTI is aware, the system of land valuation in NSW is not inequitable.

In general we understand that, by reference to accepted standards of mass appraisal quality measurements, the NSW system of assessment achieves good scores in relation to the “coefficient of dispersion”, “price related differentials”, and “median value to price ratios”.

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Moving on to the matters in respect of which the Committee will be making recommendations, we make brief comments under the headings in Section 2 above.

#### **a. Any legislative changes required**

IPTI understands that the base legislation in NSW (i.e. the Valuation of Land Act 1916) is to be reviewed in 2013 and we assume that the Committee’s work is an important part of this process. We further assume that this review is intended to provide a clear, concise, simple legislative document which will be more easily understood by all stakeholders.

In our experience, clarity of legislative provisions is critical to not only understanding of the system, but also to its efficiency and effectiveness.

IPTI has considerable experience of many different legislative provisions concerning property tax systems around the world and would be pleased to provide further, more detail

d advice on this aspect, upon request.

### **b. Changes consistent with best practice in comparable jurisdictions**

Again, this is an area in which IPTI has considerable expertise and we would be pleased to provide more detailed information upon request.

The Committee will be aware that most other developed countries around the world that operate property tax systems use improved value (capital or rental) rather than land value.

IPTI does not advocate any particular basis of valuation; we recognise that property tax systems should be tailored to suit the environment of the country concerned. However, the Committee might like to bear the following points in mind when reviewing the existing basis of valuation in NSW:

- advocates of land value based systems usually focus on the “classic” Adam Smith/Henry George arguments that taxing land value has a number of advantages including (a) reduced or no economic distortion and (b) a strong incentive to use property for its most productive use (i.e. its highest and best use);
- those who are opposed to land value only systems argue (a) that property tax could only have a significant impact on highest and best use if the rate of tax was considerably higher than under present systems and (b) as a matter of practical concern, there is little or no evidence of open market sales of land – particularly in dense urban localities – on which to base accurate and credible value assessments.

IPTI is aware that the federal Government commissioned ‘Henry’ Report recommended that property remain as the principle basis for levying taxes, with a recommendation for increased emphasis on land tax. Although the Committee will no doubt be aware of the detail, the relevant extract from the Henry Report is as follows:

*Stamp duties are a highly inefficient tax on land, while land tax could provide an alternative and more stable source of revenue for the States.*

*When applied uniformly across a broad base, land tax is one of the most efficient means of raising revenue. This efficiency arises from the immobility of the tax base and, unlike most other taxes, levying different rates of land tax in different States has very low efficiency costs.*

*Existing land taxes are narrow, which make them less efficient and fair than they could be. Levying higher taxes on larger holdings discourages land-based investment by institutional investors, such as in rental housing. As owner-occupied housing is exempt, land tax on*

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*esidential investment properties is probably passed through to renters as higher rent.*

*The structure of land taxes could be improved by broadening the land tax base to eventually include all land. Land tax rates should be based on the values of a given property, so that the tax does not discriminate between different owners or users of land. A tax-free threshold based on the per-square-metre value of the land could be set such that there would be no tax liability on most agricultural and other low-value land. Higher-value land could be taxed at differentiated rates based on the per-square-metre value of the land.*

A separate issue that the Committee may like to consider in terms of comparisons with other jurisdictions is the issue of access to information. IPTI understands that the NSW system allows taxpayers to access details of the valuation of their own property online with some helpful explanations of the basis of valuation, etc. However, we understand that taxpayers cannot access the value assessments of other properties/taxpayers. This may be an area that the Committee would want to consider.

If the Committee wants to see an example of how much information is available to taxpayers in other jurisdictions, they may wish to look at the website of the Municipal Property Assessment Corporation (MPAC) in Ontario, Canada. MPAC is the largest assessment agency in North America and has invested a great deal of effort in providing information for taxpayers about not only their own property valuations, but also the assessed values of other similar properties. Taxpayers generally want to be able to access this type of information online and many assessment agencies are responding positively to this demand.

### **c. Measures to improve transparency within the system**

We have already alluded to a number of issues that could improve transparency and we will not repeat them here.

It is worth making the point that greater transparency is likely to lead to greater understanding by taxpayers which, in turn, leads to greater acceptance with consequential improvements in compliance and efficiency through reduced costs (e.g. fewer enquiries and appeals).

### **d. Measures to achieve greater efficiency within the system**

Again, we have already touched on some of these points and do not wish to duplicate what we have said elsewhere.

### **e. The need for possible amendments to the Valuation of Land Act**

We have already touched on some of these points and do not wish to duplicate what we have



said elsewhere.

If the Committee would find it helpful to have more detail from IPTI about the need for legislative change, please let us know. However, whilst we would be happy to undertake such a task, that would require a separate project.

#### **f. A cost-benefit analysis of proposed changes to the system**

At this stage IPTI is not in a position to provide any meaningful analysis of the type that would assist decision-making.

#### **Conclusion**

We hope that this submission contains information and comment that the Committee will find helpful.

IPTI is aware of how important the work of the Committee is and if you feel that having more information from us about other property tax systems around the world would be helpful, please let us know.

As already indicated, IPTI has more data and other information about property tax systems in various countries than any other organization and we would be pleased to share that information with the Committee in an impartial, unbiased and objective manner.

However, in view of the amount of work that would be involved in a more detailed analysis, etc., we would have to consider a separate project to achieve that objective.

We look forward to hearing from you in due course.

Yours sincerely,

**Paul Sanderson**  
**President**  
**International Property Tax Institute**