Submission No 1

INQUIRY INTO ZONAL TAXATION

Name: Mr Christopher Moore

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Chris Moore, Private Capacity

[redacted]

NSW Government - Inquiry into Zonal Taxation

Need

There is a need to move away from stamp duty to Land Tax. This need has been identified many times based on economic efficiency, mobility and supply of housing.

In addition, land tax rather than counting the family home in the age pension assets test is a better way of older Australians helping themselves in retirement rather than the current number of tax payers which is reducing as a ratio to pensioners.

When you consider that many young families are now paying higher income taxes, and GST, yet cannot afford to pay for skyrocketing house prices which are capital gains tax free and that retirees are accommodating and also receiving the full pension. This is starting to become an unfair scenario, especially where pensioners accommodate areas near employment.

In addition, value capture from infrastructure in urban and regional areas could be better funded. With Goulburn often being the case study.

Given that many parts of Sydney are being rezoned, Land tax needs to implemented now.

Analysis

Converting current stamp duty rates into a yearly payment, a typical Sydney home of $1M has a stamp duty of about $40,490. Or 4.05%. Using a 5% bond rate, this equates to about 0.26% per year or $2,600. A 7% bond rate is 0.32%.

The McKell instate recommended a 0.75% stamp duty above the threshold, but this is for land only.

Given that current stamp duty is for land and housing, the 0.75% is probably is about right for land only.

My own small review of 2011/12 data from the NSW Valuer General Media Releases shows the following land value for three local government areas.

Table 1 – Summary of average land values based on Valuer Generals Media Release

LGA – Residential	$ / square metre – 2011/12
Goulburn	$ 139
Parramatta	$ 588
Waverley	$ 3,570

Requirements

- Land value based on $/square metre
- It should have a minimum threshold
- The thresholds should be progressive
- Threshold movements should be linked to housing affordability. i.e, average wage earnings
- Some existing exemptions may need to be kept, otherwise most should be removed
- The family home is included
- New purchases above the threshold are included
- Existing land is included, but only the portion above indexation using average wage earnings.

Preferred Design of Land Tax

Table 2 – New and Existing Landholder Land Tax

	New Purchases	**Existing Landholders**
Indexation of Thresholds	Threshold increased by Average Wage Earnings	Threshold increased by Average Wage Earnings
Threshold (Current Year)	$ 120/sqm As per McKell Report	2016 Land Value ($/sqm) *The 2016 threshold is always used for future year evaluations. Rather than resetting the threshold each evaluation period.*
Above Threshold	As per McKell Report 0.75% Up to $775 sqm 1.0% over $775 sqm	Amount payable $/sqm = New Value ($/sqm) – (2016 Value ($/sqm) x wage indexation) 0.75% Up to $775 sqm 1.0% over $775 sqm

Example

Property Purchase

In 2011 the thresholds are $120/sqm and $775/sqm. In 2014 the threshold is lifted to $132/sqm and $852/sqm in line with wage indexation of about a 10% increase in 3 years.

In Parramatta a purchase was undertaken at a land value of $294,000 for 500 square metres in 2011. This equates to $588/sqm. Land Tax is $1755 p.a.

The local area is rezoned to medium density. The land value rises to $1000/sqm in 2014. Hence a land value of $500,000.

The land tax rises to $3440 p.a.

($852 – $132) x 0.75% x 500sqm = $2700 +

($1000 – $852) x 1% x 500sqm = $740

Existing Owners

Again the same scenario but for an existing land holder.

To determine the new threshold in 2014, the owners land value in 2011, is indexed by a 10%.

$588 x 1.1 = $646 / sqm

The land tax rises to $1512.5 p.a.

($852 – $646) x 0.75% x 500sqm = $772.5 +

($1000 – $852) x 1% x 500sqm = $740

Summary of Example

Hence for an existing land owner, a land value of $294,000 in 2011 would be $0 p.a. In 2014 with a land value of $500,000 the land tax rises to $1512 p.a. Calculation is the same for both new purchases and existing landholder, with the exception that the minimum thresholds are calculated differently.

Year	New Landholder	Existing Landholder
2011	$1755	$0 p.a
2014	$3440	$1512 p.a.

Investment Properties

The current Land tax for investment properties will be unchanged.

Conclusion

The main point of this paper, is that inclusion of existing owners above a rate of indexation (e.g. wages growth) should be implemented now.

Much of Sydney is being rezoned to medium and high density. Waiting to capture only new properties will miss most of the value capture.