Parliamentary Budget Office - Election Policy Costing

NSW Parliament • Parliament House, Macquarie Street Sydney NSW 2000

Referred By:	Australian Labor Party	Proposal No:	A128
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Proposal Title: Vacant property tax

Cluster: Treasury

General Government Sector Impacts

	2018-19 $'000	2019-20 $'000	2020-21 $'000	2021-2022 $'000	4 year Total $'000
Expenses (ex. depreciation)	-	-	-	-	-
Depreciation	-	-	-	-	-
Less: Offsets	-	-	-	-	-
Revenue	-	11,000	38,000	41,000	90,000
Net Operating Balance:	**-**	**11,000**	**38,000**	**41,000**	**90,000**
Capital Expenditure	-	-	-	-	-
Capital Offsets	-	-	-	-	-
Net Capital Expenditure:	**-**	**-**	**-**	**-**	**-**
Net Lending/(Borrowing):	**-**	**11,000**	**38,000**	**41,000**	**90,000**

Total State Sector Impacts

Net Lending/(Borrowing):	**-**	**11,000**	**38,000**	**41,000**	**90,000**

Notes and costing assumptions

The policy is to establish a 1 per cent Vacant Property Tax on the value of residential properties that are unoccupied for more than 6 months in a calendar year (does not have to be a continuous period of 6 months). Consistent with Victorian policy, the tax is to be levied on the capital improved value of land.

Summary

A vacant property tax based on capital improved value is estimated to raise $90 million over the forward estimates.

These estimates are highly uncertain. Given the lack of fit-for-purpose data on vacancies and vacancy rates, and capital improved land values, significant assumptions are made about the proportion of residential properties to which the tax will apply, and the value of vacant dwellings. Collection of tax revenue also may prove more difficult than assumed, leading to a larger than assumed amount of revenue leakage.

Background - Victoria's Vacant Residential Land Tax (VRLT)

Under Victoria’s VRLT, applicable from 1 January 2018, a property is regarded as vacant unless occupied by the owner as a principal place of residence or by a person under a lease or letting arrangement.

The VRLT applies in 16 specified local council areas in inner and middle Melbourne to properties which are left vacant for more than 6 months of the preceding calendar year.

Notes and costing assumptions continued:

The VRLT applies to residential properties but not to unimproved land, commercial residential premises (e.g., hotels), display homes, residential care facilities, supported residential services or retirement villages. A property also is exempt if it is: under construction or renovation (up to 2 years); the owner's principal place of residence, but the owner is in hospital or a nursing home; part of a deceased estate previously used as the deceased's principal place of residence; a residence occupied by the owner for at least 140 days in the year to attend a workplace in the designated taxed area; or a holiday home used by the owner for at least 4 weeks in the year.

The VRLT is levied at a rate of 1% on the capital improved value (CIV) of the property (land, buildings and other capital improvements). There is no tax-free threshold.

Assumptions

Transitional arrangements at commencement
We assume that similar transitional arrangements for introduction of the tax will apply in NSW as applied in Victoria. In Victoria, to allow the tax to commence from 1 January 2018, all relevant properties were deemed to have been occupied for the period from 1 January to 30 April 2017. This reduces the amount of tax collected in the first year. In NSW, to allow the tax to commence from 1 January 2020, we assume all relevant properties are deemed to have been occupied for the period 1 January 2019 to 30 April 2019. This will reduce the revenue from the NSW tax in the 2020 tax year.

We have estimated that only 30 per cent of a full year's revenue from the tax will be collected for the 2020 tax year (with the main effect on revenue in the 2019-20 financial year) as a result of these transitional arrangements.

Application
We assume the NSW vacant land tax will be applied annually, based on the time a dwelling was vacant in the previous calendar year. We assume the tax will apply, as for NSW land tax, to the owner of the property as at midnight on 31 December immediately prior to the commencement of the tax year. We assume that 90 per cent of tax liabilities will be assessed in the first half of each tax year (hence, for example, 90% of liabilities for the 2020 tax year will accrue in the 2019-20 financial year, with the remaining 10% accruing in the 2020-21 financial year).

We assume the vacant land tax, like land tax, will be applied using an average of the previous three year's land values.

To be consistent with Victoria, we assume the NSW tax will apply only to residential properties in the 'Sydney Metropolitan Area' (SMA), defined as the area covered by the regions referred to by the Valuer General as the 'Sydney Central', 'Sydney East' and 'Sydney West' regions. The local government areas included in these regions are: Sydney Central – Burwood, Canada Bay, Canterbury-Bankstown, Cumberland, Hornsby, Inner West, Ku-ring-gai, Parramatta, Ryde and Strathfield; Sydney East – Bayside, Georges River, Hunters Hill, Lane Cove, Mosman, Northern Beaches, North Sydney, Randwick, Sutherland, Sydney, Waverley, Willoughby and Woollahra; and Sydney West – Blacktown, Blue Mountains, Camden, Campbelltown, Fairfield, Hawkesbury, Liverpool, Penrith and The Hills Shire.

This is consistent with Victorian policy to apply vacant land tax only to the Melbourne metropolitan area . In addition, in many regional and rural areas, lack of demand for rental accommodation may result in 'enforced vacancies' to which application of a vacancy tax could be seen as inappropriate.

Residential property coverage
The costing estimates that 0.25% of all dwellings in the SMA will be liable to the NSW vacant property tax each year. Revenue estimates from Victoria's VPLT appear to have been based on a 0.5% proportion. However, we have assumed a lower proportion because:

Notes and costing assumptions continued:

- the evidence from a CIE study (see below) points to a vacancy rate below 0.5 per cent. This would be substantially reduced by exemptions for holiday homes, for residents in hospital and nursing care, and for dwellings used solely as a home-away-from-home during the working week

- anecdotal evidence suggests that the Victorian vacancy rate may have been affected by an investment model marketed in Melbourne, which advocated the purchase of off-the-plan units which were then left vacant to maximise capital gains on later sales. Such models do not appear to have been as popular in Sydney

- pressure in the Sydney market, reflecting the high 'shortfall' in the number of available dwellings, may have made renting out properties more attractive.

There is little data available for estimating the extent to which SMA residential properties are left vacant.

Census data provides a five-yearly snapshot of dwellings vacant on census night but the reason for the vacancy has not been collected since 1986. Because census data provides no more than a snapshot in time, it does not provide a reliable indicator of properties vacant for more than 6 months in the year.

Billing by water and energy utilities also has deficiencies as an indicator of longer-term vacancies. In NSW many strata units are not separately metered for water usage, unlike in Victoria where most dwellings have separate meters. NSW has only required new strata developments to install separate meters for each unit since mid-2017. Additionally, a slowly leaking pipe or dripping tap, or electricity use timers, can suggest that a vacant property is occupied.

Published vacancy rates for rental properties indicate the proportion of properties available for rent at a particular time, but not longer-term vacancies. For example, a Sydney metropolitan vacancy rate of 2.9% (Real Estate Institute of NSW, October 2018) is equivalent to rental properties being vacant on average for 1½ weeks a year. It gives no indication of the number of properties on the market that are vacant for more than 6 months, and no indication of the number of properties that are being withheld from the market.

In 2017, CIE Consulting investigated vacancy rates for NSW to test whether foreign owned dwellings were more likely to be vacant than locally owned. CIE used data relating to electricity and water consumption. CIE concluded that longer-term vacancy rates for NSW are generally low.

Specifically, CIE found that: Ausgrid data covering 1.5 million residential customers, in both multi-dwelling and single dwelling properties, showed that only 0.1 per cent of residential customers disconnected their properties in 2016, while a further 0.8 per cent consumed less than 100 kWh per annum; Endeavour Energy data showed that the lowest 1 percentile of customers consumed on average 869 kWh per annum; and Sydney Water data covering single dwelling properties showed that only 0.3% of these properties had zero usage in calendar 2016 and only 1.25% of properties used less than 50 litres per day. However, this included semi-rural properties connected to the water mains but reliant on other sources. CIE found no evidence that vacancy rates are higher for foreign-owned properties.

Vacant property values
We assume the average value of residences subject to the vacant land tax to be the same as the average value of all dwellings in the SMA. This means that the proportion of dwellings subject to the tax is the same whether taken by number or by value.

We assume the ratio of the capital improved value to unimproved land value in the SMA is 2.04. This is estimated from state-wide data by dividing the total value of dwellings for the June quarter of a year, as published by the ABS (ABS 6416.0 Table 6), by the total unimproved value of residential land as at 1 July of that year, as published by the NSW Valuer General. Over the 3 years from 2015 to 2017, this ratio has varied between 2.00 and 2.09, with an average of 2.04.

Notes and costing assumptions continued:

We assume capital improved residential land values for the SMA change by the same proportion as unimproved land values. We use unimproved residential land value changes consistent with NSW Treasury's 2018-19 Pre-Election Budget Update forecasts for land tax revenue, and then apply the 2.04 ratio to estimate improved land values.

Implementation and compliance costs

Revenue leakage due to compliance issues is likely to be relatively large because there is no reliable method for identifying or verifying vacant dwellings. In Victoria, the tax is based on self-reporting vacant dwellings. Documentation in relation to the occupation of a dwelling by its owner may be scant or non-existent. Other indicators, such as utility usage data, are not uniformly available and could easily be manipulated by the owner to avoid detection.

The precise extent of the difficulties has not been quantified, but based on compliance activities undertaken by Revenue NSW in relation to land tax and surcharge land tax liabilities, we assume actual revenue collected from the NSWVPT will be 30% below the theoretical tax yield. Accordingly, the estimates have been discounted by 30%.

Elasticity effects

Imposition of the tax may induce landowners to reduce their holdings of vacant properties, with a corresponding reduction in revenue. Given the high degree of uncertainty surrounding the magnitude of this response, we have not taken this behavioural change into account in the estimates. For example, one possibility is that this response is likely to be quite weak, and can be safely ignored, as owners of vacant properties are already forgoing the opportunity of collecting rental income, and are therefore unlikely to respond to the imposition of a vacancy tax.