

Land Value Taxation
Meeting the principle of transparency in 'good tax design'

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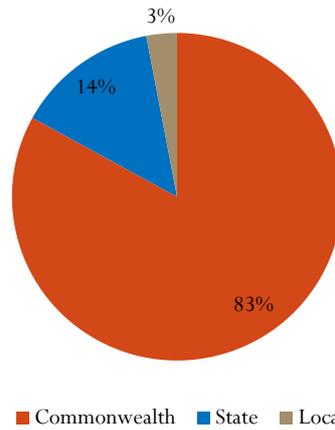
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Land Value Taxation
Meeting the principle of transparency in 'Good Tax Design'

- **Key Objectives**
 - Bases of the property tax in Australia and emerging issues with transparency
 - Emerging bases on which recurrent property tax has operated
 - Reforms to increase transparency in Australia and the research method used to measure improvement in transparency
 - Results pre and post 2005 introduction of sales information to tax payers
 - Future challenges, direction and recommendation for further improvements in recurrent property taxation in Australia

How will Henry 2009 & Tax Forum 2011 Impact on Taxation Revenue Distribution

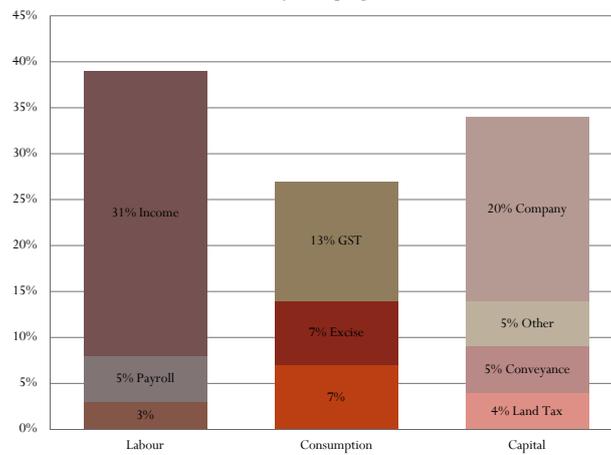
Tax revenue by level of Gov't Aust



Taxes by group & as a percentage of total tax

Treasury 2009

Australian Taxes by Grouping 07/08



No in the workforce vs people over 65

Year	No
1970	7.5
2010	5
2050	2.7

Methods of levying property tax

- Heath/Fireplace Tax – England 16th Century
 - Bricking up removing
 - (Warmth tax)



Window Tax - UK 17th century

- Bricking up of windows
- (Light & air tax)



Methods of levying property tax

- Frontage Tax
 - United States – 1861
 - Shotgun house
- Second Storey Tax
 - Camelback house
- Value in its various forms
 - Land
 - Improved
 - Income



Property tax bases by region

Source: McCluskey, Bell & Lim 2010

Region	No of countries	Land Value	Cap Imp Value	Land & Improvt's separately	Improvts Only	Annual rental value	Area	Flat Rate
Africa	25	1	8	3	4	7	11	6
Caribbean	13	4	4	2	0	8	5	0
Asia	25	2	6	2	0	11	12	0
Oceania	7	6	2	0	0	4	0	0
West Europe	13	0	9	0	0	6	0	0
East Europe	20	1	6	0	0	0	15	0
Cent/Sth America	16	2	14	1	0	1	1	0
Nth America	3	0	3	0	0	0	0	0
Totals	122	16	52	8	4	37	44	6

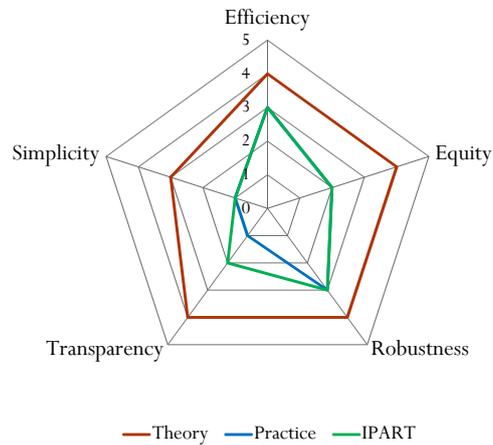
Concurrent bases of value and property taxation across Australia

STATE	STATE LAND TAX	LOCAL COUNCIL RATING
New South Wales	Land Value	Land Value
Queensland	Site Value	Site Value
Victoria	Site Value	Improved Value
South Australia	Site Value	Improved Value
Western Australia	Unimproved Value	Gross Rental Value
Tasmania	Land Value	*Assessed Annual Value
Northern Territory	N/a	Unimproved Capital Value
ACT	Unimproved Value	Unimproved Value

Value as a base of taxation

- Is less tangible than counting windows, chimneys, frontages or land area
- *Contemporary method of attacking recurrent property taxes is on the methods used to measure value*
- *Value is a contestable concept in practice and in law*
- *Courts remain judicial valuer in most jurisdictions where value is used as a base of the property tax*
- The less transparent and simple the methods used to measure value becomes, the less they are likely to be accepted by the taxpayer

IPART 2008 Review of State Land Tax NSW



Tax Principles – simplicity, transparency & equity

- A tax which is administratively focused, government centred and operationally inefficient, with little or no regard to taxpayer understanding, is a tax doomed to challenges and taxpayer distrust (**Head and Krever 2009**)

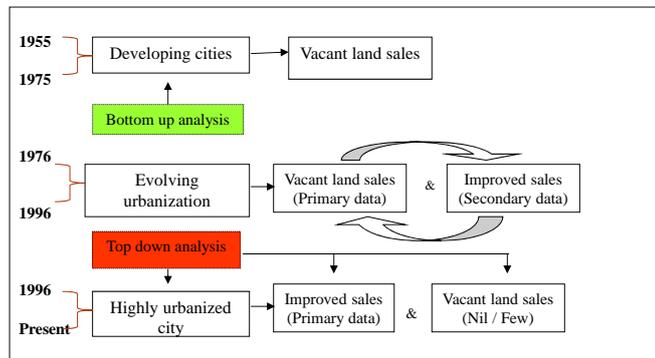
Highly urbanised location 3 adjoining parcels

Maximally 3 yr Nominally 30 yr Unproductive 130 yr



Base	Bldg 1	Bldg 2	Bldg 3	Geographic Average
Land Value (Neutral)	\$2m	\$2m	\$2m	\$2m
Improved Value (?)	\$5m	\$3.5m	?	\$2.83m
Income (?)	\$250,000	\$100,000	Nil	\$117,000

Evolution of the deduction of land value in the Sydney Basin



Sample of valuation frequency in jurisdictions with land value as a base

JURISDICTION	RE-VALUATION FREQUENCY (STATE LAND TAX)
New South Wales	Annually
Victoria	Bi Annually
Queensland	Annually
Denmark	Bi Annually
Finland	Five yearly
Estonia	Last revaluation 2001

Review of the impact of the provision of sales information to taxpayers

- 42 LGA's in the Sydney Metropolitan Area
- Analysed 10 LGA's within 15 kilometres of the Sydney CBD
- Measure the pre & post 2005 objections to land values (date after which sales data was made available to taxpayers)

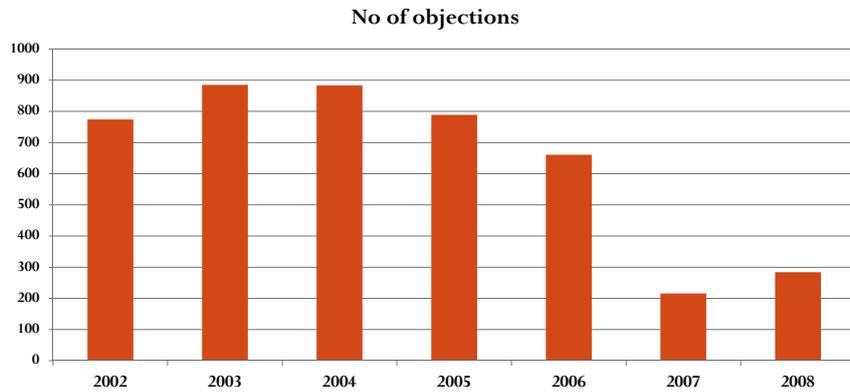
Grounds of Objections

s34 Valuation of Land Act 1916 NSW	Information Pre 2006
(a) that the <u>values</u> assigned are too high or too low	<u>Not available</u>
(a1) that the <u>area</u> , dimensions or description of the land are not correctly stated	Definable by survey or deposited plan
(b) that the interests held by various persons in the land have not been correctly apportioned	Better understood by the taxpayer
(c) that the apportionment of the valuations is not correct	Better understood by the taxpayer
(d) that lands which should be included in one valuation have been valued separately	As used by the taxpayer
(e) that lands which should be valued separately have been included in one valuation	As used by the taxpayer
f) that the person named in the notice is not the <u>lessee</u> or <u>owner</u> of the land	Better understood by the taxpayer

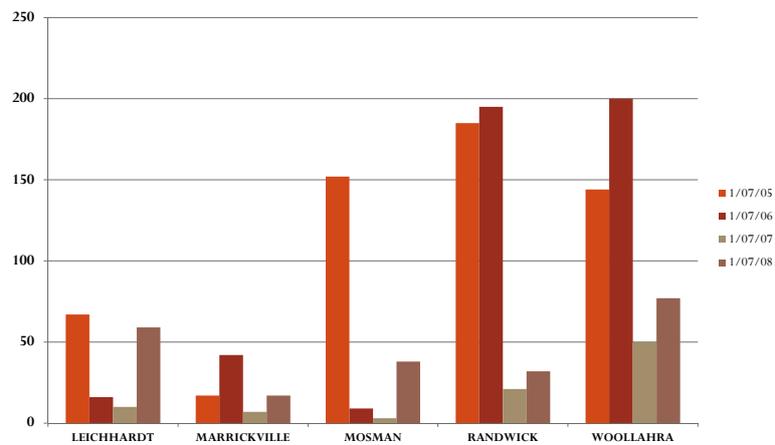
Objections 2002 - 2008

Council	1/07/02	1/07/03	1/07/04	1/07/05	1/07/06	1/07/07	1/07/08	Grand Total
ASHFIELD	7	4	63	6	8	7	2	97
BOTANY BAY	3	8	14	15	3	17	0	60
BURWOOD	8	7	48	11	3	7	0	84
LEICHHARDT	217	30	38	67	16	10	59	437
MARRICKVILLE	51	146	27	17	42	7	17	307
MOSMAN	252	23	102	152	9	3	38	579
NORTH SYDNEY	61	43	462	71	26	44	12	719
RANDWICK	31	217	74	185	195	21	32	755
WAVERLEY	51	91	25	121	159	50	47	544
WOOLLAHRA	93	316	30	144	200	50	77	910
Grand Total	774	885	883	789	661	216	284	4,492

Total No of objections across all 10 suburbs



Upward trends in some suburbs



Summary

- As taxes on labour continue to reduce as a percentage of total tax revenue, capital and in particular property taxes will grow in importance for sub-national government.
- Recurrent taxation has been applied to various bases in its application to property
- In the present era the contemporary method of attacking recurrent property tax is on the methods used to measure value in its various forms
- Like any tax, property taxes are subject to the same principles of 'Good Tax Design' of which transparency is a challenge in the use of land as the base of this tax
- A review of the provision of sales data to tax payers in NSW has shown a short term improvement in objections to values used to assess the tax.
- Where the principles of simplicity and transparency can met in the determination of land value, the longer land will remain as a base of the property tax in Australia