IPTI Xtracts

Property Tax and Assessment News from Around the World

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QUEENSLAND'S NATIONWIDE LAND TAX A 'DESPERATE' MOVE TO DEAL WITH BALLOONING DEBT

"It was so outrageous that we assumed it would never pass," was one comment passed on to Antonia Mercorella, CEO of the Real Estate Institute of Queensland (REIQ).

"I think a number of us were scratching our heads wondering who came up with this particular reform because I think it's really taking tax to a new level, and it is concerning," she told The Epoch Times.

Mercorella is referring to the Queensland government's recent decision to expand land tax liability—one of four new taxes introduced in the Australian state's most recent budget in what is considered an attempt to arrest fast-rising debt and public service costs.

Land tax in Australia is normally paid by investors—above a certain threshold—on residential and commercial holdings to the relevant state or territory government.

In turn, average investors may look to diversify their portfolio and buy properties across the country in different jurisdictions—taking into account the differing thresholds—in an effort to reduce their tax burden.

However, in an Australian-first, the Queensland government will charge land tax based on the total value of an individual's holdings nationwide—a move now being watched closely by other state governments.

Mercorella warned the implementation would not be easy and questioned the logic behind the move.

“What is land tax used for? How can you possibly justify basing the value of land tax on property that’s not within your borders? It just beggars belief—it actually is illogical,” she said.

A Bad Deal for Renters

However, Queensland Treasurer Cameron Dick has framed the new policy as one where the government is stopping investors from sidelining young families from entering the property market.

“Young families in places like Logan and Ipswich face unfair competition from Sydney-based speculators who are flipping properties around the country at a furious rate,” he said in a December 2021 statement. “We’ll close that loophole while ensuring there are no land tax changes for Queenslanders who own land wholly within our state.”

But, Mercorella believes this is an oversimplification of the matter.

“I think that’s way too simplistic an argument to say that if you took away investors that renters could afford to buy. I think that’s failing to recognise that there are people in our community who choose and would prefer to rent,” she said.

Currently, the majority of rental properties (36 percent of Queenslanders rent) are provided by regular mum and dad investors, while social housing—backed by the state government—only accounts for three percent of the supply.

Further, investors contribute significantly to government coffers, including higher stamp duty fees and land tax (state-level), council rates (council-level), and capital gains tax upon sale (federal).

“It’s the cumulative effect of these things that we’re concerned about, there’s more money that you’re forking out, in addition to mortgage repayments and other rates and bills associated with holding a property,” Mercorella said. “The reality is that the extra costs an owner incurs will inevitably be passed on to tenants.”

This will compound pressure on prospective renters who are already finding it tough to find a place to live.

The Greater Brisbane area—the capital of Queensland—recorded a vacancy rate of just 0.7 percent (as opposed to a healthy vacancy rate of 2.6 to 3.5 percent), a situation that has driven up rental prices across the city, according to the REIQ's Residential Vacancy Report for June.

The situation was pushed into overdrive during the pandemic after lockdown policies triggered mass interstate migration away from the more populous states of New South Wales and Victoria, with Queensland being the major beneficiary receiving around 80,056 net migrants between 2020 to 2021. Around 44,705 came from New South Wales, and 23,299 came from Victoria, according to the Australian Bureau of Statistics.

The surge of interest saw many owners decide to sell their property, which had the following consequences: First, the emergence of a new pool of cashed-up renters who had just sold their property; second, another pool of existing renters forced to vacate their property because it had been sold; and last, pressure on current renters to pay more and match rising rental prices.

Lack of Detail Suggests Troubled Future Rollout
Recent Budget Estimates hearings suggest the state Labor government still has plenty of work to do before it can implement the tax.

Leon Allen, Queensland's Deputy Under Treasurer, conceded that there were no existing arrangements with other jurisdictions regarding data sharing on what properties a person might own. Further, he added that the success of the policy would be "highly dependent" on how much information could be obtained—all states and territories run their own land registries independent of the other.

"It is reliant on us utilising available information as opposed to any direct feeds from other state revenue offices. Our estimations [on the revenue to be gained from the expanded land tax] are very tentative at this point," he told the Committee on July 26.

Allen was also unable to respond immediately to questions on what effect the policy could have on the state's housing affordability crisis and whether the parliamentary tax committee knew of the initiative.

The State Treasurer Dick said he believed the government would need to hire just nine employees to get the program underway, also noting that it would have access to "alternative mechanisms" and "third-party providers" to find out what properties an individual owns.

In response, Mercorella questioned whether it was actually financially worth doing.

"I would have thought that the cost of administering, policing, and enforcing this policy is likely to be greater than any actual financial gain."

A Government Spending Beyond Its Means

The expanded land tax is one of four new taxes introduced in the latest Queensland budget, including a higher gaming tax, the higher payroll tax for large businesses (a "mental health levy"), hikes to the state's mining royalties—the latter sparking a direct response from the Japanese ambassador. On top of this the government upped the penalties for speeding, seatbelt and red light traffic offences.

"This is what happens when government spends beyond its means, the people pay, and they pay, and they pay," Campbell Newman, the former Liberal-National premier of Queensland, told The Epoch Times. "They've thrown caution to the wind, and they just don't have any financial discipline."

"The government has massively increased the administrative side of the public service and yet failed to deliver better frontline services. As a result, the costs have gone through the roof, and they're desperate to raise cash. That's why they are mugging everyday investors."

Current debt levels are expected to reach $127.4 billion (US$87.8 billion) by 2024-25.

Premier Annastacia Palaszczuk has faced criticism for public service wage rises, as well as her government's decision to spend $198.5 million on building and leasing a 1000-bed COVID-19 quarantine camp in Wellcamp—144 kilometres west of Brisbane—and shuttering it just six months after opening. Only 700 people stayed at the facility during that period.

State opposition leader David Crisafulli said the costs equated to around $325,000 per guest.

"The state government could've bought a one-bedroom unit for each guest," he said.

Newman also said high coal and gas commodity prices had contributed to the budget's bottom line, essentially masking the need for financial discipline. But at some point, the Queensland government would need to rein in spending—which could be challenging in the lead-up to the 2032 Olympic Games.

"Rather than take advantage of high coal and gas prices to get things under control, they just kept spending—when the commodity cycle turns, they will have huge problems," he said.

"As the tranches of debt mature, they will need to be refinanced," he added. "The interest rates have gone up substantially, and that means rather than dollars going into police, ambulances, and hospitals, they're going to interest payments to overseas financiers."

TAX LANDOWNERS TO REPAY COVID-19 DEBT, ANU STUDY SAYS

A federal land tax of 0.1 per cent imposed annually on mainly wealthier and older property owners would be the best way to repay about $500 billion of government debt accumulated during the COVID-19 pandemic, a new study says.

Other viable options are to reduce concessions for capital gains tax (CGT), introduce an inheritance tax, or a tighter means test for the age pension by assessing the value of a retiree's principal place of residence, says an Australian National University research paper released to The Australian Financial Review.

The ANU paper sets an objective of over 33 years reducing federal government debt back to sustainable levels of about 30 per cent of GDP, after it blew out to more than 40 per cent, or $1 trillion, in the pandemic.

The least economically damaging way to raise more revenue to reduce debt would be via a flat federal tax on the unimproved value of land, said Robert Breunig, chairman of tax policy at the ANU's Tax and Transfer Policy Institute.

Most of the government debt accumulated during COVID-19 came from lockdowns and other health restrictions designed to protect mainly older people who own most of the assets, such as property, he said.

"There is an intergenerational equity layer," Professor Breunig said.

"Older people were most at risk at dying from COVID-19 and all this money we flooded into the economy has helped the asset holders who are typically older people."

"So putting a tax on assets that are mostly held by old people is fair."

"Otherwise, putting a tax on personal income puts more of the burden on young working people who are going to have to bear all this government debt going forward."

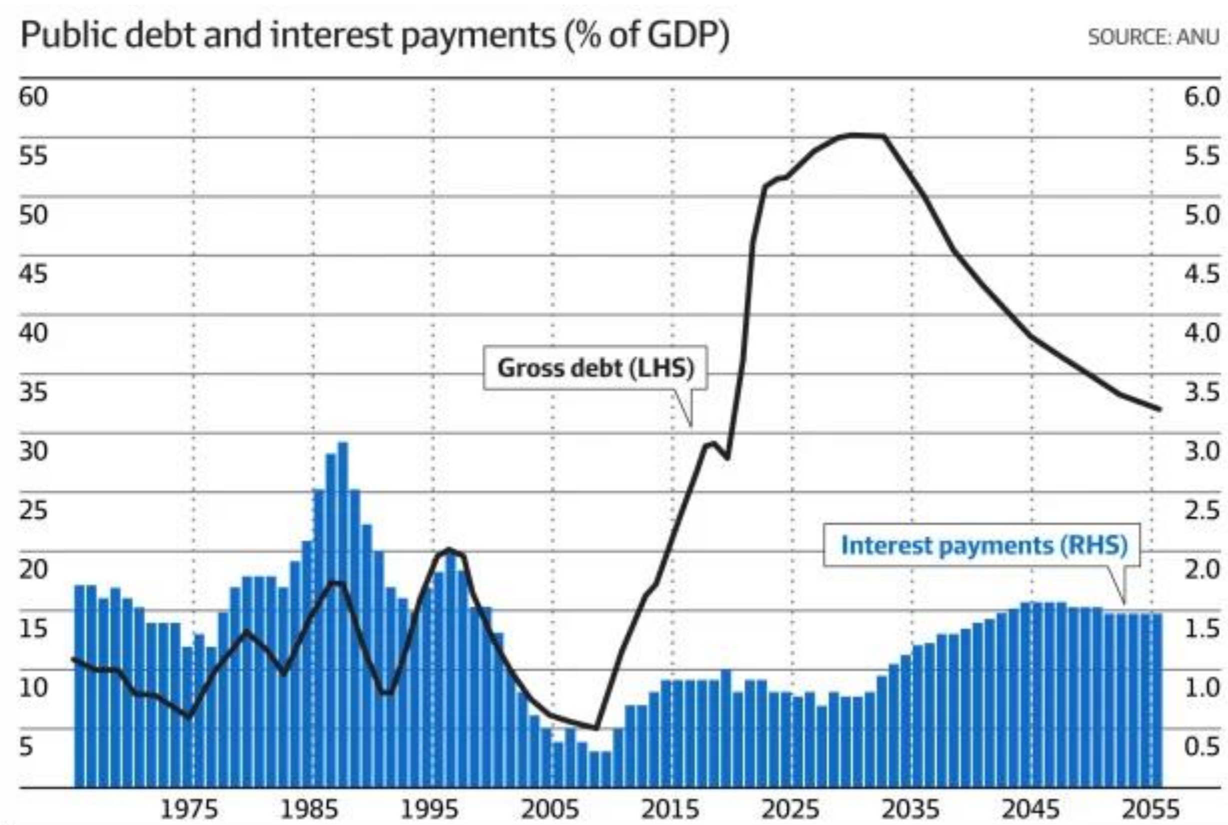
The proposed federal land tax would raise almost $8 billion a year from a 0.1 per cent rate on the unimproved value of land – that is the value of property excluding houses and other buildings. Typically, this is about half the value of a residential property.

For example, a residential property with a house bought for $1 million would have an unimproved land value of approximately $500,000. Hence, a 0.1 per cent land tax would cost about $500 a year.

Treasurer Jim Chalmers warned in his economic update on Thursday that Australia has incurred "a trillion dollars of debt that will take generations to pay off".

"We know that the debt burden left to us – the highest level as a share of the economy since the aftermath of the second world war, with deficits stretching beyond the decade – is growing heavier because the impact of higher interest rates on repayments," Dr Chalmers said.

Labor ruled out imposing new taxes during the May federal election campaign.



The Rudd Labor government's 2010 tax review led by then-Treasury secretary Ken Henry also proposed a broad-based land tax on property owners.

Another "reasonable" option explored by the ANU co-authors Trevor Rose and Professor Breunig was increasing the 10 per cent GST to 11 per cent.

However, this ranked behind the preferred option of a low, federal land tax, and the secondary options of including the principal residence in the pension assets test, introducing an inheritance tax, reducing the CGT exemption for the principal residence and cutting the CGT discount for other assets.

"Increasing the GST is not that different to increasing income taxes for working people," Professor Breunig said.

"Older asset owners is who we want to tax."

Professor Breunig said it was better to increase land taxes land because raising income taxes and corporate taxes would discourage work and investment in Australia.

"We tax income and endeavour too heavily, and we don't tax land nearly enough."

"Raising personal income taxes can lead to more use of incorporation and trusts and other tax minimisation.

"Land can't shift overseas, and a land tax is difficult to avoid."

At present, state and local governments impose similar land taxes for council rates, investment properties and business premises.

Professor Breunig said the imposition of a federal land tax could ultimately be used in negotiations with the states to eliminate their stamp duties on property transactions.

"The reality is the states are not using the land tax base effectively."

The NSW government has explored phasing out stamp duties in favour of a land tax, but has so far limited the option to first home buyers. The ACT is about halfway through a 20-year plan to phase out stamp duty for an annual property tax based on the unimproved land value.

The ANU paper focuses exclusively on the revenue side of the budget to repay debt.

"This is not because we don't think there shouldn't be expenditure reductions as well," Professor Breunig said.

LAND TAX CHANGES COMING TO QUEENSLAND IN JULY 2023

The Revenue Legislation Amendment Act 2022 (Qld) (Revenue Amendment Act) was assented to on 30 June 2022. This Act makes a number of changes to state revenue administration and collection.

Included are changes to the Land Tax Act 2010 (Qld) which will, on and from the land tax year ending 30 June 2023, require that the value of a taxpayer's total landholding in Australia (not just in Queensland) be taken into account in determining the taxpayer's land tax liability in Queensland. This change could lead to a significant increase in Queensland land tax for taxpayers who own land in both Queensland and other states and territories.

What is the current position?

The current position is that land tax is assessed on the value of all non-exempt landholding in Queensland (and not elsewhere) at midnight on 30 June each year. Differing thresholds and rates apply depending on whether a taxpayer is an individual, corporation, trustee or absentee. Types of land that are exempt from the calculation include land used as farming (in certain circumstances) and an individual's principal place of residence. The Revenue Amendment Act does not change these thresholds or exemptions.

What is the new position?

The changes will apply for the land tax year commencing 1 July 2023 (i.e. for land tax assessed on land values as at midnight on 30 June 2023).

Using wording from the legislation, for the land tax year commencing 1 July 2023 and subsequent land tax years:

- the Queensland Revenue Office (QRO) will use the total value of a taxpayer's 'Australian Land' in calculating land tax. This will include the value of both 'Taxable Land' and 'Relevant Interstate Land'
- the total value of 'Australian Land' calculated will then be used to determine the rate of land tax that will be applied to the 'Queensland Proportion' of landholdings.

Translated into practice, this means that taxpayers will still be taxed only on the value of their Queensland landholdings, but in determining the 'rate' of land tax that they pay, the total statutory value of their 'Australian Land' will be used. This will push Queensland landowners into a higher land tax bracket.

The new rule works like this:

1. first calculate the total value of Australian land owned by the taxpayer
2. then calculate the land tax on that as if all of that land is in Queensland
3. then, apportion to the total land tax amount to the Queensland land by relative value.

Practical example

Current position

ABC Pty Ltd owns land in Queensland with a taxable value of $1,500,000 at midnight on 30 June 2022. Its land tax payable for the year 1 July 2022 to 30 June 2023 is $21,000, this is because for companies:

- the applicable land tax bracket for land with a taxable value of $1,500,000 is the bracket for land values between $350,000-$2,249,000
- land tax payable for land within that bracket is $1,450 plus 1.7 cents for each $1 more than $350,000.

On 30 June 2022, ABC Pty Ltd also owns land in New South Wales with a statutory value of $5,000,000. However, the value of that land is completely irrelevant to its calculation of land tax in Queensland under the current position.

New position

As at midnight on 30 June 2023 (i.e. the following year), the taxable value of Queensland land holdings of ABC Pty Ltd remains unchanged at $1,500,000, as does the statutory value of its land holdings outside Queensland ($5,000,000). Under the new position, the value of 'Australian Land' owned by ABC Pty Ltd as at 30 June 2023 is $6,500,000.

Its land tax payable for the year 1 July 2023 to 30 June 2024 is $25,096.15, this is because for companies:

- the applicable bracket for land with a taxable value of $6,500,000 is the bracket for land values between $5,000,000–$9,999,999
- land tax payable for land within that bracket is $75,000 plus 2.25 cents for each $1 more than $5,000,000
- this calculation equates to a land tax of $108,750
- this amount is applied to the 'Queensland Portion' of the 'Australian Land' owned by ABC Pty Ltd, i.e. ($1,500,000/$6,500,000) x $108,750 = $25,096.15.

Therefore, in this example, with all other variables equal, the land tax payable by ABC Pty Ltd will increase by $4,096.15 (being 19.5 per cent) under the new position.

Frequently asked questions

Will this change result in taxpayers paying more land tax in Queensland?

There will be no change to land tax liability for taxpayers who own land in Queensland only.

However, taxpayers who own land in Queensland and non-exempt land elsewhere in Australia will pay more land tax in Queensland. The increased tax liability in Queensland does not affect land tax payable elsewhere in Australia, i.e. no credit is given for the additional tax payable in Queensland.

How will the QRO know the value of my interstate land holdings?

The Revenue Amendment Act requires landholders to declare all their interstate landholdings (including the value issued according to the relevant state's or territory's land valuation legislation). The declaration must be lodged generally by 31 October each year (or if a land tax assessment issues earlier than 31 October, within 30 days of its issuing).

As an affected landholder, can I pass on the increase to my tenants?

Assuming a current lease permits recovery of land tax (and is not a retail shop lease or residential tenancy, as land tax cannot legally be recovered under such leases), it will be necessary to check the wording of the relevant lease clause. Some leases are very prescriptive in the manner in which land tax is calculated for the purpose of outgoings. For example, a lease that stipulates that land tax must be calculated "on the basis that the landlord owns no land other than the Premises" would arguably preclude the inclusion of interstate land in determining the amount.

In relation to future leases, it remains to be seen whether, during negotiations, tenants will seek to expressly exclude the inclusion of interstate land. Tenants and their advisors should certainly this where appropriate.

How does the foreign owner surcharge fit into this reform?

The 2 per cent surcharge to absentees and foreign companies or trusts will be applied to the land tax calculated using the new methodology, i.e. using the interstate land values.

What if each parcel of land owned by a taxpayer is owned by a different SPV or entity?

The current ability to obtain the benefit of numerous land tax free thresholds through using different land-owning entities remains unchanged. Therefore, if a person incorporates Company A to own land in Queensland only and Company B to own land in Victoria only, in most cases, Queensland land tax will only be calculated using the taxable value of Company A's land.

However, there is always the possibility that Queensland might enact broader tracing and aggregation rules, which could reduce or remove the benefit of this situation.

Is all interstate land to be included in the calculation?

No. 'Excluded Interstate Land' will be ignored when calculating land tax. Generally speaking, exemptions in the Land Tax Act will be available to interstate land in the same way as Queensland land. This will include the home exemption, supported accommodation exemption, moveable dwelling park exemption, retirement village exemption and primary production exemptions. However, some exceptions will apply.

AUSTRALIAN HOUSE PRICES FALL AT 'FASTEST RATE' SINCE 2008 FINANCIAL CRISIS

House prices in Australia are dropping at their fastest pace since the global financial crisis — and market conditions are "likely to worsen" as interest rates continue to rise, according to property analytics firm CoreLogic.

Key points:

- Economists predict Australian house prices could fall between 12 and 20 per cent
- The median property value dropped 8.5pc during the GFC
- Rents have surged 9.8pc in the past year

The latest data shows that the nation's median property value has dropped by 2 per cent since the beginning of May, to $747,182 (a figure which includes houses and apartments).

“Although the housing market is only three months into a decline ... the rate of decline is comparable with the onset of the global financial crisis in 2008, and the sharp downswing of the early 1980s," said CoreLogic's research director Tim Lawless.

He emphasised it was "the fastest rate of falling house values" since the GFC and 1980s recession.

But Mr Lawless noted that, on average, prices had jumped 28.6 per cent from mid-2020 (the low point of the housing market during the COVID-19 pandemic) to April 2022 (when national prices hit their peak).

Regional Australia had an even bigger surge, with prices up 41.1 per cent in two years — as smaller towns outside the capital cities experienced a huge influx of city-dwellers seeking better lifestyles (as working remotely became the new normal).

"In Sydney, where the downturn has been particularly accelerated, we are seeing the sharpest value falls in almost 40 years."

Index results as at 31 July, 2022	Change in dwelling values				
	Month	Quarter	Annual	Total return	Median value
Sydney	-2.2%	-4.7%	1.6%	3.4%	$1,087,376
Melbourne	-1.5%	-3.2%	0.3%	3.2%	$791,999
Brisbane	-0.8%	0.1%	22.1%	26.4%	$781,850
Adelaide	0.4%	3.6%	24.1%	28.3%	$650,047
Perth	0.2%	1.2%	5.5%	10.0%	$560,020
Hobart	-1.5%	-1.3%	10.1%	14.1%	$723,066
Darwin	0.5%	1.9%	5.3%	11.9%	$506,860
Canberra	-1.1%	-0.9%	12.1%	16.5%	$925,973
Combined capitals	-1.4%	-2.6%	5.4%	8.0%	$819,880
Combined regional	-0.8%	-0.2%	17.0%	21.1%	$600,105
National	**-1.3%**	**-2.0%**	**8.0%**	**10.8%**	**$747,812**

Property prices in Sydney, Melbourne and Hobart fell sharply in July. (CoreLogic)

The median price in Australia's most expensive city fell by 2.2 per cent in July (taking its quarterly loss to 4.7 per cent). Despite that, an average house in Sydney still costs around $1.35 million, while an average unit may fetch about $806,000.

Melbourne and Hobart also recorded steep falls, with prices in both cities down 1.5 per cent last month, while Canberra prices dropped 1.1 per cent.

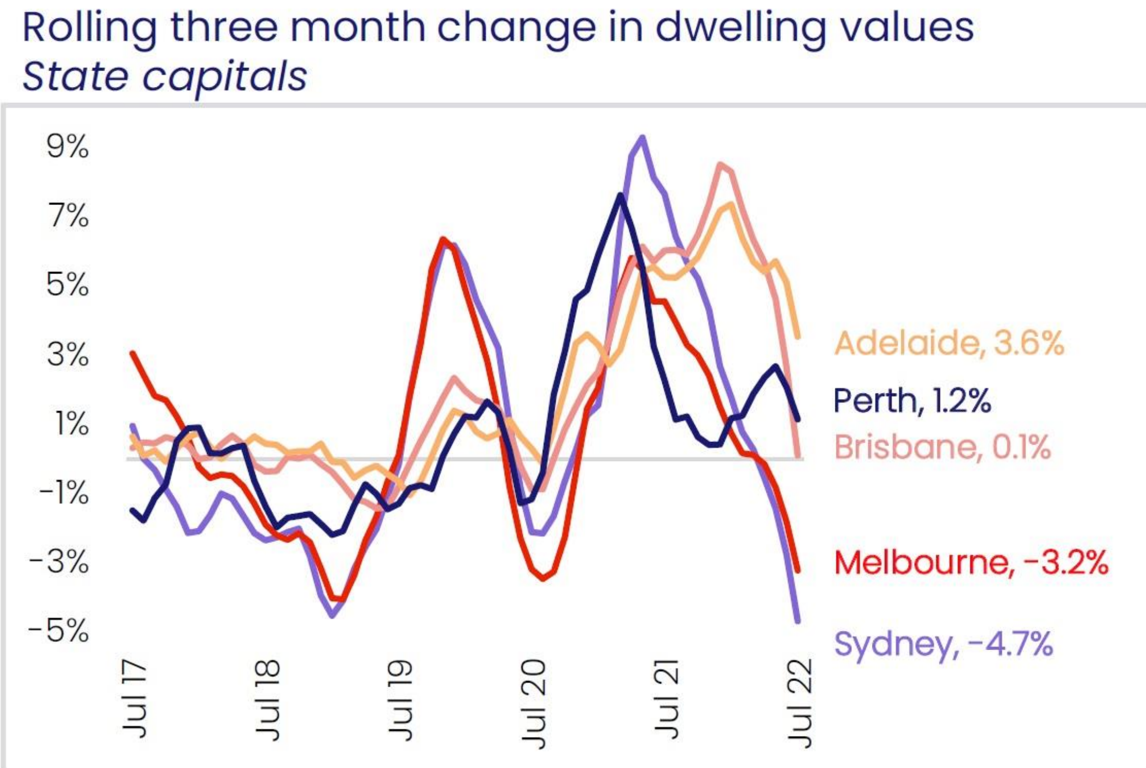
Prices in Brisbane and regional Australia fell 0.8 per cent (their first monthly decline since August 2020).

At the other end of the spectrum, Darwin, Adelaide and Perth were the only capitals where prices actually went up in July (by between 0.2 and 0.4 per cent). However, it has been a sharp slowdown since May, when the Reserve Bank began to aggressively lift the cash rate from its record low levels.

'Short and sharp'

"I think this downturn will be similar to the global financial crisis in that it will be quite short and sharp," Mr Lawless told ABC News.

Australia's median property price fell by around 8.5 per cent over an 11-month period during the GFC, according to CoreLogic.



Adelaide property prices jumped 3.6pc in the past three months. (CoreLogic)

Mr Lawless said the property downturn is "accelerating", and that he would not be surprised if "the current decline gets worse than what we saw during the GFC".

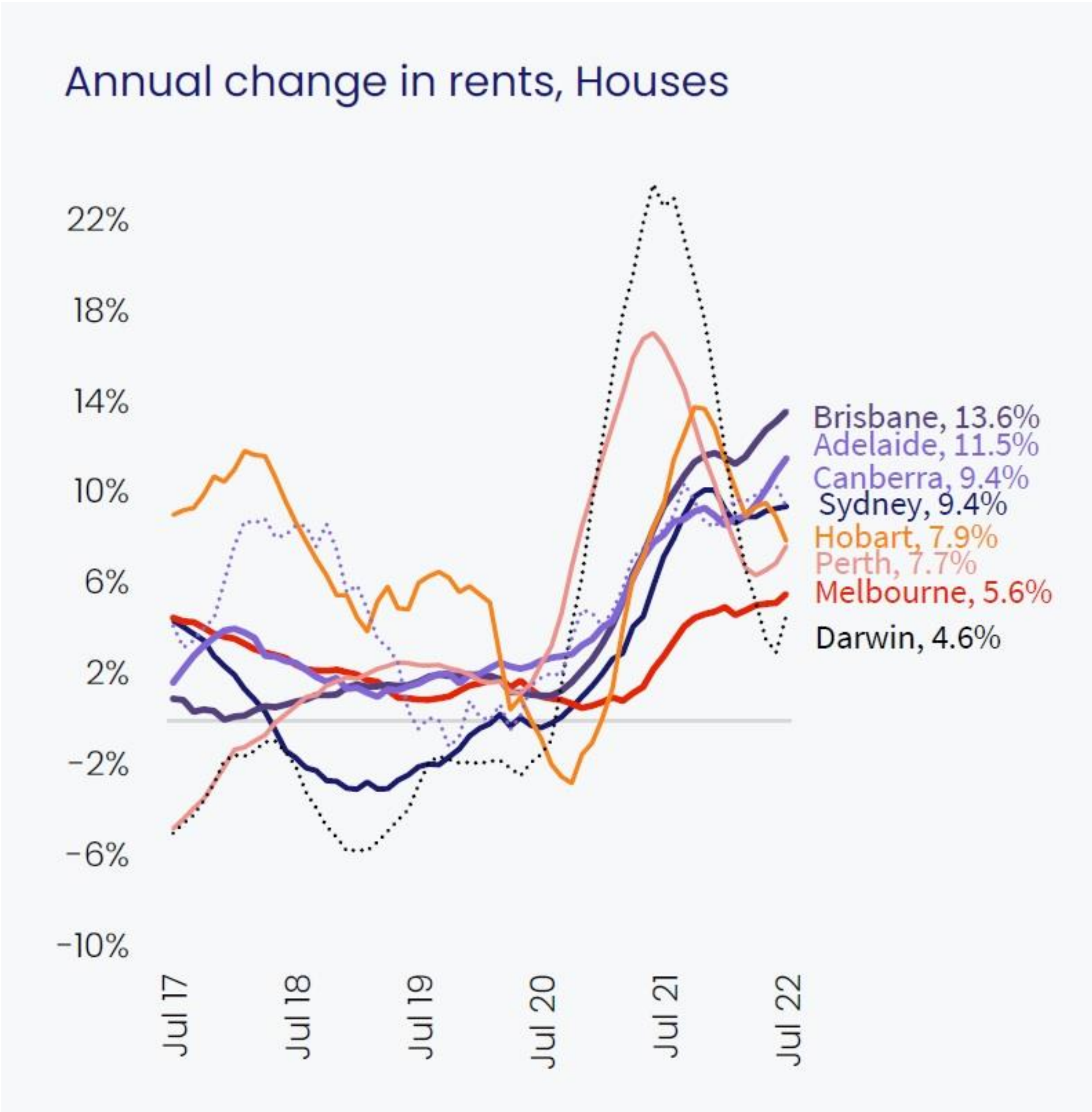
He noted the main difference is that governments and central banks are currently determined to withdraw trillions of dollars worth of stimulus, in a desperate bid to lower inflation (instead of pumping it into the global economy, like they did after the 2008 crisis).

Many analysts are predicting Australian property prices, on average, will fall between 10 and 20 per cent (from peak to trough) — with the two most expensive cities Sydney and Melbourne likely to suffer the biggest declines.

But even if the worse case scenario eventuates, it will not drastically improve housing affordability.

"If we saw say, a 15 per cent drop in national housing values, it would take prices back to where they were in about April 2021."

How quickly (and by how much) prices fall will depend on how aggressively the RBA decides to lift its cash rate target in the next few months.



Brisbane and Adelaide tenants are experiencing the sharpest rent increases. (CoreLogic)

Since May, the RBA has lifted its cash rate target from 0.1 to 1.35 per cent.

If the central bank delivers another double-sized rate hike on Tuesday (0.5 percentage points), as widely expected, that would bring the new cash rate up to 1.85 per cent.

Buyers' market and surging rents

"The market has moved to being very much more in favour of buyers over sellers now, especially in markets like Sydney and Melbourne," Mr Lawless said.

"Buyers are getting back in the driver's seat. They have more choice, and there's less urgency.

"But for sellers, it means they need to be much more realistic about their pricing expectations, and they should expect there's going to be more negotiation."

Renters are also disadvantaged in the current property market. As their landlords' mortgage repayments increase (and more foreign workers and students) return to Australia, rents have surged rapidly.

“Rental markets are extremely tight, with vacancy rates around 1 per cent or lower across many parts of Australia," Mr Lawless added.

"If you consider the history of rents, it's very rare to see dwelling rents rising at more than say 3 - 4 per cent per annum."

But in the past quarter, the national average rent jumped 2.8 per cent — and they are up nearly 10 per cent in the past year.

Looking forward, Mr Lawless said renters may be under increasing pressure to rent out any spare bedrooms to more flatmates, look for cheaper rents in apartments (rather than houses), or "stay at home with mum and dad longer".

"There's definitely going to be some negative social outcomes from such high rents, which aren't showing any signs of slowing down at the moment."