IPTI Xtracts

Property Tax and Assessment News from Around the World

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Pandemic land tax relief for landlords and landowners

The Victorian government has implemented relief measures for land tax to support businesses and individuals during this trying period.

Understanding the relief measures is vital not just in appreciating the measures per se, but to enable yourself or your business to take the requisite steps in claiming the appropriate land tax relief available.

Land tax reduction

Most landlords will, if not already, have been contacted by their tenants requesting for rent relief, be it in the form of a rent waiver or a deferral of rent.

In light of this, both landlords and tenants alike will be well aware of the various rent relief measures implemented by the Victorian government under the COVID-19 Omnibus (Emergency Measures) (Commercial Leases and Licences) Regulations 2020 (Vic).

Unfortunately, it is not as widely appreciated that flowing from such rent relief being afforded, landlords are entitled to a land tax reduction.

On the outset, commercial and residential landlords are eligible for a land tax reduction only if the property has been tenanted since before 29 March 2020.

Commercial and residential landlords who provide tenants with coronavirus rent relief consistent with the principles of the Support to Landlords and Tenants Package are able to claim a 25% reduction on the relevant property's land tax for the 2020 year.

Specifically, rent relief provided to tenants between 29 March 2020 and 29 September 2020 must be at least 25% of the 2020 proportional land tax liability (exclusive of absentee owner surcharge, if any) for that property. It should be noted that a landlord will not be eligible if only a deferral, not a reduction of rent is provided.

Commercial and residential landlords are also eligible to the land tax reduction for the 2020 year if they are unable to secure a tenant because of the COVID-19 pandemic.

Commercial landlords need to be particularly aware that the land tax reduction will only apply if the tenant satisfies the following criteria (to be provided in the form of a declaration from their tenant):

- Licensed pub, club or restaurant under a general, full club or on-premises liquor licence:
    - At the premises level, their turnover was no greater than $50 million in the 2018-2019 financial year, or their expected turnover in the 2019 – 2020 financial year is less than $50 million; and
    - Their turnover at that premises has reduced by at least 30% since March 2020
- Other commercial tenants:
    - They have an annual aggregated turnover of up to $50 million; and
    - They are eligible for, and participating in, the Commonwealth Government's JobKeeper Payment.

In order to receive this land tax reduction, eligible residential and commercial landlords must apply for the land tax reduction through the SRO's My Land Tax portal.

Land tax deferral

Separately, Victorian land owners with at least one non-residential property have the option of deferring their land tax payments for the 2020 land tax assessments until 31 March 2021.

Please note however, this land tax deferral will only apply to land owners whose total taxable landholdings are below $1 million.

You will be notified by the SRO that your 2020 land tax assessment has been deferred for payment until 31 March 2021. No application is needed for this deferral.

Property Council calls for ACT government advisory body for property rates and taxes

Property developers warn taxes could stifle Canberra's development

Property developers and owners have called for the next government of the ACT to set up a special panel to advise it on rates and taxes.

They fear that high taxes on property could stifle the development of Canberra.

The territory's Property Council which represents the developers wants "the 'right rate' of rates and charges which not only keep us competitive, but enables government to invest back into the economy through stimulus measures that create jobs and diversify our economy".

It is worried that taxes on property could become too high to encourage growth.

"What we know is that when costs borne by property owners become unsustainable, it stifles business confidence and investment," the Property Council's director in the ACT, Adina Cirson, said.

"Being a small jurisdiction with a limited industrial base, the ACT relies more heavily than most on land and property related taxes than most.

"This is a difficult reality for the ACT, but this situation has a number of consequences for the development sector and housing affordability."

The Property Council says the proposed body should be advisory and should have members of the "community" on it - though it wasn't keen on trade unions being represented.

It wanted a place on it, along with government ministers and public servants responsible for economic development plus representatives of the Canberra Business Council, the ACT Council of Social Services, ACT Shelter and the Woden or Northside communities.

The ACT government's tax reforms aren't as progressive as it claims

In a set of reports purporting to support its claims its taxation reforms have been (a) revenue-neutral; (b) economically beneficial; and (c) progressive, the ACT government recently released modelling by the Tax and Transfer Policy Institute (TTPI), the Australian National University and the University of Canberra's National Centre for Social and Economic Modelling (NATSEM).

We have previously commented on reports of the purported revenue-neutrality and economic benefits of the reforms, and noted those reports did little more than support a conceptual case for them - which is in any event universally accepted - but failed to address serious questions about how they have been implemented. Unfortunately, similar observations may be made about the questions asked of the TTPI and NATSEM by the ACT government, and its report.

In the distributional analysis the consultants assumed the reform was revenue-neutral. That assumption, as we have previously illustrated, is not correct. One of the conclusions of the analysis is that the rates system is more progressive now than it was in 2011-12. However, in that year, which is before the reform, the value-based charge in general rates was flat. The reform introduced increasing marginal tax rates based on unimproved land value. That the rates system became more progressive from 2011-12 to 2012-13 and onwards can, therefore, be taken as a given. That is not, however, the issue. The real question is: have the significant incremental transfers of conveyance (stamp) duty to rates since 2012-13 been progressive?

The change from 2011-12 to 2012-13 was, as expected, progressive. Since then it has been regressive with the highest increase in the effective tax rate occurring at the lower end of land values.

The ACT's Taxation Review Panel, in its report to government, warned of this danger when it noted: "The analysis presented in this report indicates that there are likely to be significant distributional impacts in any transition to efficient tax bases. The impacts for lower income groups can be ameliorated through progressive tax settings."

Sadly, the government ignored this advice.

The consultants' modelling includes a possible increase in dwelling prices due to the modelled increase in housing market activity resulting from a decrease in stamp duty, but not due to any other policies. The assumption is not unusual in the context of an academic study. In reality, however, the most significant factor in the increase in house prices in Canberra, and confirmation of just how brutally predictable is the law of supply and demand, is the ACT government policy of land supply constraint, with the four-year supply decreasing from 19,500 sites in 2012-13 to 15,600 in the 2019-20 budget. Taking into account the increase in house prices in the real economy, driven almost entirely by a cap on supply, a purchaser of a median priced house in Canberra in 2018-19 paid approximately $3300 more in conveyance duty, and $206,000 more in total costs compared to a median priced purchase in 2011-12.

Notwithstanding the above limitations, the combined effect of conveyance duty and rates changes as a proportion of income in the consultants' modelling has been largest and negative for households in the lowest income quintile - a result that regrettably did not receive any attention from the chief minister or, that matter, the media, with the focus being directed instead to the impact by wealth quintile.

In the consultants' modelling, since 2012-13, as a proportion of income, costs for the lowest income quintile have increased by approximately 0.6 per cent, compared to an increase of 0.1 per cent for those in the highest income quintile. Interestingly, however, the results are quite different when viewed by wealth quintile. As a proportion of income, households in the highest wealth quintile had the highest increase at approximately 0.4 per cent, followed by those in the lowest wealth quintile at approximately 0.2 per cent of the income. This divergence can be reconciled by noting the largest component of household wealth is commonly the family home, and a substantial proportion of people in a high wealth quintile are retirees and pensioners with relatively low incomes.

The Taxation Review Panel recommended utilising the concession system to 'cushion' the distributional impacts of the reform, a recommendation the ACT government formally agreed to in its response to then panel's report but which it has not acted on.

In reality, the concession system has been progressively eroded. In 2012-13 a pensioner paid $42.40 for fixed rates and the Fire and Emergency Services Levy net of pensioner rebates. By 2019-20 the ACT government had increased this impost on pensioners tenfold, to $421.

Based on the ACT's income distribution, the "value" of a dollar for a low-income household is around two-and-a-half times more than that for a median-income household. The welfare impacts on lower income households have, therefore, been much more severe than the actual dollar increase suggests. The fact that low-income households in the ACT have been hit with the highest increase in the effective tax rate is not progressive and, we think, should be neither maintained nor celebrated.

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