The Critique Of Australia’s Property Taxation System

Purpose

The purpose of this report is to critique Australia’s property taxation system (ad valorum) and discuss whether it’s currently being used appropriately to raise annual government revenue.

On face value, the property taxation system implemented throughout Australia is regarded as a reasonable form of raising government revenue but is seen as under being understated in contrast to other forms of revenue-raising (Hefferan and Boyd, 2010).

Methodology

To determine whether Australia's property taxation system is truly underrepresented, and possible resolutions/recommendations for this issue are identified, the data used to make an accurate conclusion has been derived from reputable and unbiased sources; using predominantly qualitative data. Furthermore, archival research is the main form of data collection, and by selecting literature that’s not too outdated, unless reference to older property taxation data is necessary.

Introduction

Due to the sheer scale of Australia’s population, there are ongoing problems with the taxation system and its inefficiency in this contemporary setting (MacFarlane, 2003)

A progressive taxation system should be transparent, encourage fairness, easily applicable on mass, and not lead to gross misrepresentation of resources. Australia’s taxation system is very dissimilar, and Ad valorum’ taxation is no exception to this criterion (Sangkuhl, 2003).

Statutory Valuation Summary

Statutory valuation or mass appraisal is a technique used to calculate residential land and/or property values on a large scale for purposes such as establishing council rates but more importantly regarding the payment of land taxes on residential property (MacFarlane, 2003). In Australia, the frequency of these valuations varies depending on the state as a result of historic events.

Land tax is typically calculated based on unimproved value, which is simply the value of the site assuming no improvements have been made to said land. However, local authorities in some states can decide what method to use when calculating these values, whether it be based on Capital Value (value of unimproved land plus buildings and other improvements) or unimproved value.

Key findings

Due to the rapidly growing population, and its social growth, there's been a greater emphasis placed on shorter appraisal cycles, effectively forcing the Australian government to have more dependence on mass appraisal for valuations (Mangioni, 2018).

In the case of residential properties, having large gaps between valuations creates issues, such as drastic rate fluctuations. With severe market movement, the number of objections arise. When more people object, the smaller Australia's annual tax revenue becomes, as it's more costly for the government to conduct individual appraisals (MacFarlane, 2003).

Individuals can see mass appraisal as troublesome, as government appraising on mass is not as accurate, and sometimes derives figures not satisfactory. However, the government thinks this method is appropriate as the majority is being evaluated no different to one another, making it generally more equitable. To the individual, it's not reasonable as they could suddenly be hit with significantly a larger land tax than previously. In retrospect, having mass land appraisals occur more regularly could effectively decrease the number of objections made annually. By setting a standard valuation frequency across the states, a fewer number of objections will avoid excessive operational costs (Mass Appraisal Guidebook, 2010).

Australia's poor assortment of taxes and its size creates an excess of administrative and compliance costs for slight gains. The property taxation system is financially inefficient, requiring a colossal amount of funding to be placed aside for the governments' many branches of tax for operational costs.

For reference, in 2014, Australian and State Government property-related taxes only contributed 11.4% to total tax revenues. This is a very small percentage considering the property is such a substantial asset (PCA, 2019). Forcing the government to impose many other taxes to account for the difference

Taxes like stamp duty are mere 'revenue raisers' used by the government to meet their set annual tax revenue (Razaghi, 2018); offering the buyer nothing in return. This is a central issue as it creates a negative environment for a range of individuals, as excessive taxation makes homes less affordable and adds to the cost of doing business (PCA, 2019). The Australian government needs investor activity in order to keep up with rising infrastructure demands, although taxes like stamp duty disincentivize casual persons/investors.

In addition, land tax is severely underutilized, yet, there are ways to streamline the system to boost efficiency (Freebairn and Stewart, 2015). Only a small portion of individuals pay land tax yearly. Eligibility for this tax applies based on the total taxable value of an individual's combine freehold land.

For a company, this is to the unimproved land value of $350,000 or more; and in the case of an individual, it's to $600,000 or more. However, some entities are allowed exemptions, and varying rates apply depending on what type of landowner they are (Qld.gov, 2019). A study from 2007 indicated that land tax accounted for 4,358 ($m) in tax revenue while GST was 41,208 (Tax review treasury, 2019); resulting from the lack of individuals affected by land tax. To derive more land tax revenue, the eligibility criteria must be harsher forcing more entities to pay; having cheaper land rates with a higher volume of these taxpayers could make for a more efficient system.

Real property isn't as simple as it used to be, meaning there’s an extensive range of properties now containing many different land uses, such as multi-residential that becomes increasingly more difficult to account for in standard mass appraisals. As Australia grows, the complexity of increased urbanization will continue to conflict with mass appraisal; producing inaccurate valuations.

Famous economist Henry George designed a taxation system that condensed all taxes into a single tax while being economically feasible. The system revolved around an individual's tax being solely on the contained rent a landowner earns on the land in which their house stands; with consideration to the improvements made to the neighboring land. Land rents would increase due to more public goods. These public goods would be provided by the tax revenue, to enhance landowners over persons who do not own land. Effectively, the tax on rent would be fairly redistributed to those without land in free public goods.

George argued that because land supply is fixed, and it’s location value is derived from surrounding public works and it’s communities, the most reasonable source of tax revenue should be from the economic rent of the land in question, in order to account for increased urbanization (Cleveland, 2012). This would remove the need for all inefficient taxes and significantly decrease administrative costs; theoretically making this taxation system a viable alternative in place of the current (Lemieux, 2018).

Challenges

Between the state governments, each state will favour their own taxation system and more importantly their timeframe of valuation and methodology. Unless a national benchmark is set regarding accurately conducting property taxation, there will continue to be unnecessary challenges.

Due to the scale and complexity of the current taxation system, slight changes could result in radical circumstances if not correct in first instance. Government bodies are at a point where they’re too afraid to make these changes rather than being publicly scrutinized.

Conclusion

In my opinion, I don’t believe Australia’s current property tax system is being used effectively to its fullest extent. Government tax revenue is being compromised by factors like redundant taxes discouraging investors, high administration fees due to increasing valuation objections from property taxation disagreements, poorly thought out taxes, and more.

Overall, the system is overly complex and not well-balanced. Unless property-related taxes such as municipal rates, land tax, CGT, stamp duty, are independently refined, the system will stay underrepresented. Furthermore, to account for Australia’s rising economic growth, the utilization of tax systems introduced by Henry George would be dynamic to proportionally raise annual revenue in future years.