STATE TAX REVIEW SUBMISSION

FROM THE

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GENERAL COMMENTS

The state government wants to review the state tax system. Some research has been done in this matter, but it has been done by accountants who are number crunching. This is not a reflection on the accountants; they are simply providing figures that reflect what can or cannot happen when changes are made.

However, just as our eco system becomes unbalanced when we interfere with nature, so does our economy when we interfere and create an imbalance. You cannot continue to squeeze something and expect it to keep producing revenue.

One would expect that the purpose of this exercise is that the government feels that a change in the taxation system will result in more tax, otherwise why would it consider a change. Furthermore, if there is no increase in property values, there is no increase in revenue, but a property tax, like council rates can be increased annually.

Landlords can afford to sell inner city properties cheaper than new homes, hence if landlords sell in South Australia:

a) Rental accommodation is reduced and won't come back
b) Less work for property managers so more unemployed
c) Investment will go to other states boosting their economy instead of ours
d) Less demand for new homes because of competition with inner city sales of established properties by landlords who exit the business
e) Less work for builders leading to more unemployment
f) More stress on Housing SA, shelters, welfare agencies and the SA Government

And for landlords who do not sell, rents will have to increase. Firstly, to recover any increased costs and secondly, due to market forces. Again, more pressure on the state government and welfare agencies to provide more relief to the needy.

We all understand that the government needs taxes to provide services but creating an environment where people and businesses invest, make a profit and pay a fair tax is the solution, not over taxing. If you penalise those who invest, they invest elsewhere, and once they are gone, they are gone for good.

So what are the consequences of an imbalance? If landlords sell their South Australian properties because of lower returns, there are some young people (not necessarily tenants) who would buy their first home but it would create a rental shortage. The needy, women escaping domestic violence, people with mental health issues etc are not in a position to buy a home and if there is a shortage of private rental accommodation, the state government will have to find a solution.

LAND TAX

For some reason, property owners are the only group targeted. Land tax has always been referred to as a wealth tax, but what is the difference between someone who has $1,000,000 in property, or someone with $1,000,000 in shares, or someone with $1,000,000 in the bank; are they not all worth $1,000,000? Why is it that we want to tax the property owner, but not the others? Is it because there is a stigma from bygone days when landlords were barons with great wealth and power and could physically evict tenants on a whim? Perhaps some people feel that landlords owe it to society to provide cheap accommodation for those in need or those less fortunate. Today, most landlords are just mums and dads who are trying to put something aside to help them in retirement, rather than be a burden on society and draw on welfare. Welfare is the responsibility of the government, not a targeted section of the community.

The problem with the existing land tax system is that it is unfair. If "X" buys three units in a complex and "Y" buys one unit in the same complex, each unit pays the same amount for SA Water, council, ESL, strata fees etc. But "Y" may pay no land tax and "X" may pay several thousand dollars in land tax purely because of the land he owns. Rent from the unit is based on market value, not on expenses, just as a house will rent for $340 per week regardless of whether you own it freehold or whether you have a $400,000 mortgage. Land tax should be charged like council rates etc; based on the value of an individual property, not on what other property you own. Furthermore, the tax should be on the actual use, not on what it could be if it was vacant.

Why is there an exemption for investors who have site values of up to $316,000? Land tax should apply to all investment property in such a way that they all have similar costs. Hence, it should be calculated on the improved value eg a property at Richmond with 2BRs, one bathroom and carport, would pay less land tax than the property next door that has 4BR, ensuite and double garage, albeit on the same size block – the latter would attract more rent.

As the existing land tax system is punitive, it sends a clear message to landlords that they are not welcome in South Australia and many landlords are now considering investing in other states. As an example, if a landlord sells one of his properties in South Australia and reinvests in Victoria, his SA land tax bill would be reduced by over $7,000 and cost just over $400 in Victoria – do we need a number cruncher?

At the moment, from 787,501 private properties in South Australia (2013-2014), 50,363 ownerships are paying $346.3 million into the state's revenue via land tax. From the 50,363 ownerships, 9,300 are paying aggregated land tax. There is no incentive to encourage investment in South Australia.

Does the community believe that landholders with a higher value of aggregate land holdings should pay proportionately more land tax than landholders with more modest land holdings? If so, what is the best way to structure the land tax system to achieve this objective?

The answer to this question was evident even before it was proposed. It is unrealistic to think that the community in general, have any idea about land tax unless they are personally affected. They would naturally believe that the more land holdings a landholder has, the more land tax they should pay.

The question should be "Should members of the community who invest for their future, not having to rely on welfare benefits, and persons who create employment for others, be allowed tax concessions or incentives?

CONVEYANCE DUTY

The state government is considering abolition or reduction of stamp duty on the purchase price of a house in exchange for a broad-based property tax on all properties. It is a fact that stamp duty is a burden to first home buyers and to those who wish to move several times during their life. However, no comment has been made on the first home buyers' concession scheme – this helps with stamp duty costs, so would this be removed if stamp duty was abolished?

An annual property based tax, is as the name implies an annual expense whereas a conveyance duty is a one-off expense. In many cases, the conveyance duty is factored into the mortgage. Abolishing conveyance duty may encourage first home buyers into the property market, but in the long term an annual property based tax, other property rates and taxes, and mortgage repayments may cause hardship. Many homes are above the $410,000 median price and therefore the tax would be more than $1,200 per annum. A property based tax may diminish housing affordability because it is another expense to the household budget.

For any government introducing a property tax on the principal place of residence at a cost of $100 per month would be political suicide, so that is not going to happen. It is also unfair on people who have already paid stamp duty when they purchased their home(s) as this would be double dipping. And if the property tax only applied to properties purchased after a given date, the tax would be recovered in about 10-12 years with regular increases.

As previously stated, when you interfere with something and create an imbalance, there are consequences. In particular, landlords will reconsider the way they manage their property. To ascertain the rent, a landlord considers the purchase price of a property or its current value. He does not consider the ancillary costs of purchase as this is a one-off expense. However, a property tax on rental property would be an annual expense and landlords would not absorb the $100 per month, but instead increase the rent. In other words, regardless of the purchase price, if a landlord has a property worth $400,000 and a taxable return of 3% (with a risk), he is better off investing elsewhere with little or no risk.

Abolishing conveyance duty may cause a housing boom (demand may outstrip supply). This may be driven further by buyers and investors from interstate. However, the current land tax methodology already impedes further investment in property locally, and would discourage investors from interstate.