

The Land Tax amendment and Vendor Duty and the Construction Industry in New South Wales

The purpose of my address is to explain the Land Tax amendment and Vendor Duty and to explain their negative impact on the NSW building and construction industry. Against the background of a softening property market and increased interest rates the Land Tax amendment and Vendor Duty in NSW have unnecessarily worsened the decline of property investment and have created the most unfavourable property investment taxation environment in Australia. In the long term this will cost the jobs of construction workers in NSW.

Land Tax

Land Tax is a tax on the ownership of land in NSW not used as a principal place of residence. This includes ownership of land for commercial and industrial purposes, such as shops, factories and warehouses and land used for residential investment or other purposes, including second homes, apartments and holiday houses.

What Changed?

In 2004 the NSW government announced it would be making amendments to the Land Tax legislation which repealed the tax exemption for investment properties (including second homes, holiday houses) with a land value of under \$317 000 but above \$25 000. The new tax legislation commenced from the 31st of December 2004. It is estimated conservatively that 500 000 property owners who had previously paid no land tax were now liable.¹

With the median land price in Sydney currently at \$338 000,² ownership of a second property with a land value of \$300 000 would add \$1 200 per year to the tax bill. Secondly the NSW Valuer-General's reassessment of the tax payable on land holdings has been clumsy and inaccurate. Based on broad value calculations of 200 properties at a time and compared with recent sales to create an index factor, the Valuer-General's assessment fails to consider local market conditions, improvements on properties, or special characteristics like waterfrontage. In some cases the recent Valuer-General's reassessment of land value has been 200 to

¹ Real Estate Institute of New South Wales.

² Real Estate Institute of New South Wales.

300% higher than the previous year, meaning land holders were asked to pay 2 or 3 times more land tax than they did 12 months earlier. Landholders have complained that this was impossible to factor into their budgets and are now up for thousands of dollars in tax they had never expected. Particularly hardest hit are working families who may own a small holiday property not producing any income. The NSW Valuer-Generals land value reassessment has upped the tax bill excessively, making landholding for small-time investors difficult if not impossible.

Vendor Duty

The Vendor Duty introduced by the NSW Government on June 1, 2004 places a tax of 2.25% on the full sale price of a property that is sold for a price 12% higher than the original purchase price. It is payable by the vendor irrespective of whether the value gains resulted from market appreciation or investment. For example, if an owner spends \$50 000 renovating a property with a value of \$100 000, thus raising its market value to \$150,000 it will be taxed at this amount. In this way it is not only a tax on profit but also constitutes a tax on investment. This discourages property owners from undertaking renovations and refurbishments of their property.

The Vendor Duty is payable on the sale of properties that are not principle places of residence including investment properties, second homes and holiday houses.

The impact of the Land Tax amendment and the Vendor duty on property investment and construction in NSW.

With the introduction of the Vendor Duty, unique to NSW, and the abolishment of the \$317,000 Land Tax threshold, NSW now has the most unfavourable property investment taxation environment in Australia. Amongst property speculators it is widely accepted that the NSW property market is now a poor choice for investment and this is demonstrated by recent figures. These show that:

- Demand for investment property loans in NSW has fallen by more than \$5 billion in the eight months since the Vendor Duty was announced in April 2004. (Property Council of Australia)

- The number of commercial property market transactions have fallen 16% in NSW between the last six months of 2003 and 2004. (Housing Industry Association)
- In December 2004 only \$116 million in commercial property changed hands in NSW, the states lowest result for more than 18 months, compared to almost \$400 million in Victoria and \$500 million in Queensland. (CB Richard Ellis)

This dramatic drop in property investment is beginning to impact negatively on employment in the building industry.

- In the December quarter of 2004 investment in residential construction fell by 4% and was 2.3% lower than the December quarter of 2003.
- Overall lending for construction is down 18.1% since the end of 2003.
- With the recent interest rate rise, indicators suggest that the fall in residential building is likely to continue.

While employment amongst construction workers currently remains high, this is largely due to the stock of projects ordered during the recent period of property market growth. It is clear that the number of new construction projects being ordered has dramatically decreased in recent months and this will impact heavily on the employment of construction workers in 2005/06.

Why are the Vendor Duty and Land Tax amendments bad for building industry employment in NSW?

The Vendor Duty and the Land Tax amendment make NSW the least attractive State for property investment in Australia. This is clearly demonstrated by the above statistics which indicate that investment funds are flowing from the NSW property market into competitor markets in Queensland, Victoria and New Zealand.

Commercial office space, shopping premises, apartments, units and houses, constructed in NSW for investment both by large companies or individual families must pay the Vendor Duty upon sale. Considering no other Australian state imposes a Vendor Duty, this acts as a significant disincentive to investing in the NSW property market. Every property investment construction project lost to another State or overseas costs the jobs of construction workers here in NSW.

For families in NSW the Land Tax amendment may make owning an investment property, second home or holiday home, costly or simply unsustainable. Because the Land Tax amendment does not separate the value of renovations from value gains made through market appreciation it acts as a disincentive for property owners to renovate and upgrade their properties. This too will be a considerable blow to the employment of builders and tradespeople employed in refurbishing and renovating older properties.

In an environment where both residential and commercial construction activity was already decreasing, coupled with the recent increase in interest rates with more forecast in the near future, the Vendor Duty and Land Tax amendments will serve to further kill off property investment in NSW, and thus employment for construction workers as investors and families take their money to other states or choose to invest in other more profitable enterprises unhindered by excessive state taxes.

The Vendor Duty is a revenue failure.

While it is acknowledged that taxation is required to fund services such as health, education and infrastructure, the Vendor Duty has failed to raise its projected revenue. In the first five months of the budget year, the Vendor Duty has raised just \$123 million, less than 20% of its \$690 million annual target.³ It has consistently failed to raise anywhere near its \$57.5 million monthly revenue target.

Consequently, the Vendor Duty is actually losing the NSW Government revenue. As investment moves offshore to New Zealand and to other Australian states due to the

³ Australian Bureau of Statistics.

unfavourable property investment taxation environment, the NSW Government is losing a massive amount of revenue from the stamp duty it would otherwise have collected. For each sale that does not occur in NSW, the Government loses stamp duty on the sale. The Australian Property Council estimates this to be a loss of some \$230 million in revenue.

The Vendor Duty and Land Tax amendments are hurting Labor voters.

Vendor duty is not a rich person's tax, it is hurting people right across Sydney, with many investors living in traditional working class suburbs with a high proportion coming from Sydney's western suburbs. Particularly hardest hit are small-time investors, working families and tradespeople who over time do not have sufficient superannuation accrued and rely on investment in small houses and units to finance their retirement. The Vendor Duty and Land Tax amendment make owning investment properties for these groups excessively costly and unsustainable, thereby prohibiting their access to this critical investment opportunity.

These groups are found largely in traditional Labor seats. The suburbs of Liverpool, Blacktown, Wentworthville, Pagewood, Bossley Park and Hoxton Park are among the top 20 suburbs where small-time investors live.⁴

Conclusion

The Land Tax amendment and the introduction of the Vendor Duty by the has put NSW at a severe disadvantage in competing for property investment dollars with other Australian states. Each property development investment project that is lost to another state or overseas costs the jobs of construction workers in NSW. As the property market softens and interest rates rise the already weakening construction employment is likely to worsen, unnecessarily hurting the livelihoods of construction workers in NSW. Furthermore, small-time investors will continue to be burdened with taxes they can ill afford. Surrendering their investment properties will place the retirement plans of these investors in jeopardy.

Accordingly the Construction Forestry Mining Energy Union will be campaigning with all industry stakeholders to reverse these taxes.

⁴ Australian Taxation Office 2001/2002.