

Growth Areas Infrastructure Contribution



ISSUE

Alongside extending Melbourne's Urban Growth Boundary (UGB), the Victorian government is introducing an infrastructure levy of \$95,000 per hectare on the first sale of land brought into the Urban Growth Zone (UGZ). This Growth Areas Infrastructure Contribution (GAIC) will be paid by developers and ultimately home owners.

As a matter of principle, the UDIA considers that all taxes, charges and levies levied on land and home ownership are, to varying degrees, bad taxes that distort market behaviour. We also consider that the cost of state-significant infrastructure should be borne by all tax payers, not just those who purchase new homes in the Growth Areas. We understand and accept that the government is committed in capturing a proportion of the value uplift once farm land is introduced into the UGB and is made available for development. The UDIA, however, opposes the GAIC in its current form.

The last thing that the government would want would be for the land newly brought into the UGB to be more expensive than existing land because of the way that the GAIC is imposed. If land is not brought on stream to develop because the market seizes up, it will have real consequences for housing affordability.

FACTS

In summary, the UDIA considers that in its current form the GAIC:

- Is inequitable and treats land owners differently depending on the size of their titles.
- Will seize the land market, particularly for land well beyond the development front.
- Will restrict land supply, increase holding costs and worsen housing affordability.
- Does not have a strong enough nexus between the revenue raised and the infrastructure being delivered.
- Exemptions and deferrals may be arbitrary.

Rezoning Does Not Automatically Lead To Value Uplift

The government's underlying premise in charging the GAIC at the time of first sale is that bringing land into the UGZ will automatically result in value uplift. This is not entirely accurate, as the vast bulk of value uplift comes at the Precinct Structure Plan (PSP) stage. As proposed, the GAIC is likely to seize the market making it unviable for farmers on the new fringe of the UGB to sell their land as any such transaction would trigger the payment of the GAIC. Land that will be inside the new UGB that is not going to be developed for 25 years will not undergo a value uplift and may not even be worth \$95,000 per hectare until the development front is nearer. This will result in fewer land transactions and it is unlikely that the government will reach its GAIC revenue projections.

A Betterment Tax or an Infrastructure Levy

The GAIC is a hybrid between a betterment tax and an infrastructure levy. As such, it does not capture the value uplift equitably. If it was to do this, then the tax should be levied as a proportion of the value uplift as a result of the changed use of the land, rather than a blanket per-hectare levy.

GAIC is Inequitable

It is inequitable because it does not treat land holders with the same area of land holdings in the same way. Consider an example where two neighbouring land owners each own 100 hectares of land that is zoned UGZ. The first land owner owns the land under one title, while the second land owner has ten titles. Under the current GAIC proposal, when the land first transacts, regardless of the staging of the development, the first land owner will be required to pay \$9.5 million upfront, while the second land owner will only be required to pay \$950,000 as each lot is developed. The imposition of a punitive interest rate for deferred payments, as foreshadowed, only increases this inequity as well as increasing holding costs for all who defer payment of the GAIC. The first developer in this example faces significantly larger holding costs than the second developer and for no other reason than a difference in the way the titles were acquired.

Nexus Between Funds and Infrastructure

The government has suggested that GAIC funds can be used for any state significant infrastructure in the Growth Areas. This means that there will be no nexus between the collection of the GAIC funds and the infrastructure built. The UDIA understands that state significant infrastructure such as the E6 and the Regional Rail Corridor will open up land for development for the whole of the Growth Areas, and it is reasonable that GAIC be used to fund these projects. However, for location-specific projects such as schools and hospitals, it is important that one area does not cross-subsidise another area. A lack of a nexus between GAIC and infrastructure spending will create uncertainty. This uncertainty is resolved at the PSP stage.

Clumsy Rebate Scheme Required and Discretionary Nature of Hardship Provisions

As the GAIC is to be paid on developable land, a rebate scheme for land that ultimately proves to be undevelopable will be needed. This is likely to be difficult to administer and substantially increase the administrative burden to government.

The discretionary nature of the GAIC hardship provisions, including deferral, may be problematic. Leaving a discretionary power with the Minister may lead to arbitrary decisions and distort the market.

KEY RECOMMENDATIONS

The UDIA proposes a number of minor but important changes to the government's GAIC policy:

- Make it so that the GAIC liability arises at the time of the gazettal of the PSP.
- Allow developers to defer the GAIC by right, at an interest rate that is equal to the construction index, so that payment of the GAIC falls due on a subdivision basis.
- Allow the right to defer the GAIC to be transferable on any subsequent sale of the land prior to subdivision, so that the liability is not attached to the land if it is sold prior to subdivision.
- Ensure that there is a nexus between the area in which the GAIC is paid and the infrastructure that it is being spent on.
- Recognise in-kind payments made by developers towards state significant infrastructure as dollar-for-dollar contributions against their GAIC liability.



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Page 2 of 3

More Equitable Timing

As the government’s intention is to levy the GAIC only on developable land, we consider that the best time to calculate the liability is at the gazettal of a PSP. We consider that this should be the only time that a landholder becomes liable for the GAIC. The value of the land is revealed at this stage, and the owner can apply for a planning permit to develop the land. We also consider that changing the taxing point to PSP gazettal also has a number of administrative efficiency savings for government.

Levying the GAIC at the time of PSP gazettal solves the equity problem of landowners being treated differently on the basis of how their land is held. As the GAIC will fall due when a PSP is gazetted and payable at subdivision stage, it will not matter how the land is held in terms of the number of titles.

Net Developable Land

The question of the net developable land is also solved if the taxing point is moved. The PSP would show exactly the land that can and cannot be developed. This would mean that a rebate system would no longer be needed.

Incentives to the Growth Areas Authority to Speed up the PSP Process

Land that was brought into the UGB in 2005 is only just coming to market. This is due in large part to the slow nature of the PSP process. Making it so that the GAIC liability arises at gazettal of a PSP will give an incentive to the Growth Areas Authority and the Department of Planning and Community Development to process PSPs as quickly and efficiently as possible. This will have the effect of bringing more developable land on stream faster, which will lower holding costs and the price of houses and land to end buyers. In any case, it is essential that the PSP process be faster than in the past.

Deferral by Right

In order to ensure that the tax burden does not lead to significant cash flow and financing problems, the UDIA would support a system that allowed for the GAIC to be deferred by right with deferred payments indexed to the construction index. Under our proposal, while the GAIC liability would arise at the time of PSP gazettal, payment would not fall due until subdivision began and this right to defer should be transferable on any sale prior to subdivision. This would not impact on the government’s revenue projections. Allowing deferral by right would also mean that hardship provisions would not be necessary, reducing the administrative burden.

Nexus of Funds and Infrastructure and In-Kind Works

The PSP process would reveal the state-significant infrastructure that would be required for the area. At this point, developers are certain of the infrastructure that is required in their development. GAIC liabilities should take account of any works in-kind that the developer is required to complete. In any case, we consider that at least 50 per cent of the GAIC funds should be used on state significant in the same region in which it is collected.



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