To: Outer Suburban/Interface Services and Development Committee, Parliament of Victoria.

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From: Ken and Anne Greenwood,

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Re: Submission to draw attention to an unintended consequence of the proposed triggering of the Growth Areas Infrastructure Contribution at the first sale of the land and also an issue associated with it being proposed as a flat tax.

We are concerned that an unintended consequence of the Government's proposal to trigger the Growth Areas Infrastructure Contribution on the first sale of land brought into the proposed Growth Area is the strengthening of the monopoly (bargaining) power of developers to the detriment of Landholder vendors. We are also concerned that the proposed flat tax per hectare will be a disproportionate burden on vendors with marginal land. We recommend alternative options to make the application of the Growth Areas Infrastructure Contribution more fair for Landholder vendors.

We, Anne and Ken Greenwood, live and operate an Equestrian Centre business on our property at 160 Gunns Gully Road. All of our life savings, (including both our superannuation lump sums) have been invested in infrastructure on the property with the aim of generating an income stream to support our retirement. We adopted this strategy with confidence because the 20/30 plan excluded our land from urban subdivision. Our property has now been included within the proposed new Urban Growth Boundary (UGB) and will be subject to the proposed Growth Areas Infrastructure Contribution (GAIC) when we sell it. While we are not necessarily opposed to the GAIC, we are concerned that this new land tax, in its proposed form, has the potential to financially ruin us.

Minister Madden has explained that the GAIC needs to be triggered when land brought within the proposed new GAB is first sold, because the Government has handed all affected Landholders a "windfall" by rezoning their land as "Suitable for Development" and that some of this additional uplift in value should be directly contributed towards the construction of public infrastructure. Minister Madden has continually claimed that the proposed new, flat tax of $95,000 per hectare is "fair", because he has been advised that this amount represents a smallish fraction of the "<u>expected</u>" 10-fold uplift in the value of each affected property.

Minister Madden's expected 10-fold uplift in the value for all rezoned properties is actually dependent on two uncertain assumptions: firstly, that the Real Estate market for land within the GAB will remain liquid in the short term, and secondly, that all rezoned properties, regardless of position and other attributes, will have equal prospects for profitable development.

We wish to elaborate both assumptions:

<u>ASSUMPTION 1: that the triggering of the GAIC on the first sale of properties will not distore the Real Estate market in the short term.</u>

The additional cost of the proposed $95,000 per hectere GAIC on top of the land value will make properties much too expensive for Primary Producers to be able to buy. Land speculators will also be priced out of the Real Estate market within the UGB. The only purchasers with sufficient resources and possible interest in this land are the Developers. If there was a <u>demand</u> for land zoned "Suitable for Development" from Developers and the <u>supply</u> was limited (Landholders holding out for a higher price), then the expected 10-fold increase in value might be realistic. However, the reality is that most of the prime land to be rezoned as “suitable for development” is already owned by various Developers. The major Developers actually do not need any more land in the short term. The reality is that **demand** will be weak. Many Landholders within the proposed UGB have been trying to sell their properties during the last 12 months (for reasons of ill health, debt realisation, life style change, deceased estate), but the market has been frozen (no purchasers). The reality is that **supply** is, and will continue to be, strong. The economic law of “Supply and Demand” predicts that purchase prices and therefore land values are not likely to increase by much, if at all.

An unintended consequence of insisting that the GAIC be paid by the vendor at the point of first sale is that land prices will be artificially depressed in the short term.

This unintended consequence affects us because Ken has a chronic environmental disease (“Farmer’s Lung”) and we would have made an effort to sell our property to get off the land if we thought that we had a reasonable expectation of receiving “fair value”.

ASSUMPTION 2: that all properties within the proposed UGB will experience an equal uplift in value.

The GAIC is a flat tax of $95,000 per hectare, which is applied to each unconstrained property, larger than 2 hectares, within the UGB . Minister Madden must have assumed that the amount of “uplift per hectare” will be the same for all properties brought into the UGB, because he says that the GAIC is “fair”.

The reality is that properties differ in many ways: steepness, physical soil type, chemical soil type, amount of surface rock, level of salinity, level of soil moisture, type and degree of vegetation cover, type and degree of existing development and proximity to future developments that will impact the amenity of the location (for example, the OMR transport corridor, industrial estates, drainage canals). The reality is that some properties will be more suitable for profitable development (including the land already owned by Developers) and will experience a greater uplift in value per hectare. Other properties will be less suitable for profitable development and will experience a lower uplift in value per hectare.

An unintended consequence of the "flat tax" nature of the proposed GAIC is that it will have a significantly greater impact on vendors of land that is deemed (by Developers) to be less suitable for development.

This unintended consequence affects us because it has been proposed that our property will be bisected by the OMR transport corridor and that 50% of our remaining land will be zoned "significantly constrained" to service and enhance existing developments to the North (Mandalay) and to the South (MAB Corporation) of us. Both of these Planning Overlays will devalue the remaining parts of our property. Under the present proposal, we would still be required to pay $95,000 per hectare, and it is entirely possible that we could end up further in debt if we tried to sell.

So how could a GAIC be structured and applied more fairly and equitably?

We are not necessarily opposed to the concept of a GAIC. However, the tax needs to be applied so that it does not have unintended consequences and needs to have a fair and equitable structure.

Alternative Option 1: Trigger the payment of the GAIC at the point of development (like other Australian States).

The GAIC should be triggered at the point of development of the land. Although this means that the cash flow to the Victorian Government will be delayed, the Government will still receive the same amount in 2008 dollar terms because the tax will be indexed. Landholders will still indirectly pay for the tax because the future need to pay the GAIC will be factored in to the sale price (vendors will accept proportionally less, knowing that the Developer will have to pay the additional GAIC cost in the future).

The benefit of triggering payment of the GAIC at the point of development is that demand for property in the short term will not be reduced by the killer tax and the market will remain liquid and the tax will be more fair.

<u>Alternative Option 2A</u><u>: Make the GAIC a proportional tax #1</u>

Rather than charging a flat $95,000 (or any other amount) per hectare, the Victorian Government should calculate the amount payable on the basis of a given fraction of the sale price which would be indexed into the future until the point of development, when it is paid. To avoid rorting by developers, a subsequent sale of the land at a higher price would be subject to a further proportionate increase in the GAIC to be paid at the point of development.

<u>Alternative Option 2B:</u> <u>Make the GAIC a proportional tax #2</u>

Rather than charging a flat $95,000 (or any other amount) per hectare, the Victorian Government should calculate the amount payable on the basis of a given fraction of the value of the proposed development, payable at the point of the development. The Government could also charge back interest calculated from 2008 if it wished.

The benefit of changing the GAIC form a flat tax to a proportional tax is that the tax will be more equitable for Landholders, because each vendor will be equally affected. Landholders will pay, either directly or indirectly, the same fraction of their sale price.

We strongly urge the Committee to recommend these proposed changes to the GAIC to Minister Madden. We believe that they will reduce two unintended consequences which have a negative impact on Landholders brought into the UGB. The Victorian Government has a duty to make sure that all legislation is fair and equitable to all stakeholders.