Taxed Out Inc. provides this submission in response to The Victorian Parliament's Outer Suburban/Interface Services and Development Committee inquiry into the State Government's decision to change the Urban Growth Boundary.

This submission relates to the proposed introduction of a Growth Areas Infrastructure Contribution with specific attention drawn to the following terms of reference:

- any unintended consequences including the impact on all landholders and purchasers to be impacted;
- any alternative options, including any used in other jurisdictions.

Taxed Out Inc. is a not for profit organization representing affected land owners and concerned residents throughout Victoria who oppose the introduction of a Growth Area Infrastructure Contribution (GAIC) on landowners.

The GAIC is a retrospective tax of $80,000 per hectare or $95,000 per hectare dependant upon when land is brought into the Urban Growth Boundary (UGB). The charge is levied on the registered proprietor and triggered upon the sale or subdivision of property and is indexed annually. Taxed Out members are almost entirely made up of families and elderly citizens.

The basis of this submission is derived from information and meetings with department and government officials from the Growth Area Authority (GAA), Department of Planning, the Department of Premier and Cabinet and government representatives, including the Planning Minister Justin Madden, and Shadow Planning Spokesman Matthew Guy. This submission is informed by these meetings, the expertise and understanding of the Taxed Out executive, and feedback from over 400 landowners and the general public.

Summary of the proposed GAIC:

- The GAIC is to be charged retrospectively from the 2nd of December 2008.
- It is levied up-front on the first property transaction (sale or subdivision)
- It is charged at a flat rate of $80,000 per hectare or $95,000 per hectare.
- The tax is indexed annually.
- Land within the investigation areas will not be developed for 10 to 20 years, between 2019 and 2029.
- The GAIC is levied on the registered proprietor.
- It is payable by homeowners living on 2.03 hectares or more and is payable on the whole property.
- The GAIC is triggered on vacant land over 4100 sqm.
- The subdivision of a principle place of residence on 2.02 hectares or less will provide exemption from the GAIC.
- The GAIC is not payable upon the transfer of land to a family member or transfer directed by a will.
- A hardship committee is to address issues relating to unforeseen circumstances.

How does this proposal affect land owners?

- The GAIC leads to a massive reduction in property equity and borrowing capacity <u>now</u> – some landowners may owe more than the value of their property.
- It effects inheritance – if a will directs that a property be sold the tax applies.
- It applies if a marriage breakdown requires the family home or other marital property to be sold.
- It alters the whole concept of land ownership – an estate in fee simple. The highest form of private property ownership in the country means nothing if the value of property can be eroded through government intervention. Why own property when there is no guarantee of its value in the future?
- The same type of property can be sold in any other part of Australia without paying the tax.

- The same type of property can be sold outside the UGB and no tax is payable.
- The same type of property inside the UGB before November 2005 does not pay the GAIC.
- No other form of infrastructure tax in this country targets private citizens.
- For the developer the tax is a cost of doing business and therefore a tax deduction.
- A property owner with 2.02 hectares or less pays no tax. However a few extra square metres of land will cost at least $192,850 in tax.
- The current proposal has required the GAA to announce the establishment of a hardship committee to oversee the complex problems caused by the tax.
- The GAIC applies an arbitrary and discriminatory trigger point associated with land size of 2.03 hectares for homeowners and vacant land over 4100 sqm.
- Subdivision to exclude the principle place of residence from the GAIC is in conflict with the Urban Growth Zone provisions.
- No other part of Australia has a hardship committee associated with an infrastructure charge. New South Wales has a similar charge that is not linked to title ownership and therefore it has no impact on vendors selling, inheritance, marriage breakdown or borrowing capacity. This NSW approach does not require a hardship commission.
- Almost all landowners are currently liable to pay Capital Gains Tax to the Federal Government for any uplift in property value.
- A different trigger point such as planning permit approval removes all problems associated with the GAIC and will negate the need for a hardship committee.

Taxed Out have three major concerns with the Growth Area Infrastructure Contribution as proposed, those are:

- **Failure to acknowledge the market value of lifestyle property.**
- **Failure to acknowledge the market value of property with long-term development timelines.**
- **Failure to properly understand the impact levying the GAIC on the registered proprietor would have on families and the elderly.**

1.0 Failure to acknowledge that lifestyle property within commuting distance to Melbourne has a significantly higher value than that reported by the Growth Area Authority.

The following information is relied upon by the GAA to substantiate a base figure for land before inclusion in the Urban Growth Boundary.

"Often land holders compare the GAIC rates against the valuation of their land under its current rural zonings when it is outside the UGB. This land is valued at much lower rural land values as it is not within the UGB and not zoned for urban development. Independent market valuation research by CKC indicates that the underlying value of such farming land outside Melbourne's growth areas is often around $15,000 to $35,000 per hectare." *(GAA Fact sheet 3 - June 2009)*

"History has shown that when land is rezoned from farming to urban development, property prices can rise up to ten times in value," Mr Seamer said.

To take a real example from an independent market valuation, a property inside the UGB in Plumpton, in Melbourne's growing outer western suburbs, sold at $404,000 per hectare in September 2007. Whereas nearby land in Melton that was outside the UGB sold at the same time for $37,000 a hectare.

It's a similar story in the south-east, where a 40 hectare property in Pakenham sold in November 2007 at $474,000 per hectare, whereas nearby land outside the UGB in Clyde North, sold at the same time for $36,000 per hectare. *(*Growth Area News – Issue 6 July 2009*)*

In both instances the GAA refer to farming land values only despite the fact the GAIC is directed at family homes on land over 2.02 hectares and vacant land over 4100 sqm. These properties are best described as small acreage lifestyle property.

Base figures of $37,000 per hectare fail to recognize the fact that small acreage property, within commuting distance to Melbourne, has a market value significantly higher than stated by the GAA.

This is supported by sales for property north of Melbourne located well outside the influence of any proposed UGB expansion or speculative purchasing at the date of sale. The data clearly demonstrates that small acreage has constantly attracted values in excess of $100,000 per hectare for the past 7 years.

FIGURE 1

Lifestyle property sales evidence

Date	Location	Price	Area/hectares	$/p ha
15 Jul 2008	Elizabeth pl Beveridge	$855,000	8.1	$105,000
27 May 2008	Grandview ct Beveridge	$700,000	6.07	$115,000
20 April 2008	Janna rd Beveridge	725,000	8.0	$90,625
31March 2008	Merriang rd Beveridge	$1,800,000	19.42	$92,687
19 Sept 2007	Kelly st Beveridge	$520,000	2.08	$250,000
11 Feb 2007	Range rd Beveridge	$700,000	8.67	$80,000
30 November 02	1380 Donnybrook rd Woodstock	$880,000	8.1	$108,641
1 Nov 2004	Donnybrook rd Woodstock	$920,000	8.1	$113,000
6 Nov 2004	1405 Donnybrook rd	$897,000	8.1	$110,000
8 Nov 2007	145 Selkirk rd Woodstock	$1,330,000	17.67	$75,268

- This situation exists in both the western and south east growth areas.
  It is noted the smaller the property the greater the per hectare value and visa versa.

2.0 Failure to acknowledge that land with long-term development potential does not have the same value as land with short-term development potential

The basis for the proposed legislation is the assumption that "land first brought into the UGB and zoned for development" receives a windfall gain significant enough to support the imposition of an $80,000 or $95,000 per hectare Growth Area Infrastructure Contribution regardless of any other factors that influence land value.

In December 2008 the State Government released the policy document Melbourne at 5 Million which clearly states:

"… land brought within the Urban Growth Boundary in 2009 is unlikely to be developed for another 10 to 20 years". *(*Melbourne @ 5 Million page 27*)*

This provides an effective development timeframe commencing in 2019 and extending to 2029.

Failing to acknowledge development timing as a major factor influencing land values is highlighted when considering two similar properties where one can be developed in two years and the other in 22 years. Both have a very different value in today's market yet the GAIC is applied at the same rate if there is a requirement that the property be sold.

That requirement can extend to a death in the family, sickness, marriage break up, job relocation, financial burden or simply, the desire to relocate. This will trigger the GAIC payment despite the fact land could be at least ten years from development.

The GAA advise the Planning Minister of a consistently held belief that all property will increase in value by up to ten times with an average land value of $356,000 per hectare. GAA Fact Sheets also refer to a range of $225,000 to $450,000 and above for land sold inside the UGB.

This is the full extent of evidence provided to substantiate the introduction of the GAIC.

The non-disclosure of factual sales evidence or detailed reports by the GAA raises serious concerns relating to procedural fairness and transparency. As such, there appears to be insufficient grounds and a lack of compelling evidence to justify the imposition of an upfront retrospective flat-rate land tax on property owners, the majority of whom are families and the elderly.

It is a statement of fact that land within the existing Urban Growth Boundary has sold well below the range stated by the GAA. ($225,000 to $450,000+ per hectare)

The following transactions in figure 2 have taken place within the existing UGB over the past 3½ years. Other than the first sale, all are located within an area designated long-term development. As such, comparability with respect to development timing makes these sales highly relevant in determining the value of land with long-term development timelines.

FIGURE 2

ADDRESS	LAND AREA	SALE PRICE
335 Grices Road, Clyde North	40.0 hectares	$166,000 per hectare
247 Mc Gregor Road, Pakenham	36.9 hectares	$172,256 per hectare
255 Henry Road, Pakenham	27.84 hectares	$172,702 per hectare
200 Officer South Road, Officer	12.14 hectare	$220,810 per hectare
295 Cardinia Road, Officer	85.11 hectares	$190,000 per hectare
40 Greenhills Road, Pakenham	20.12 hectares	$222,806 per hectare
360 Officer South Rd, Officer	25 hectares	$200,000 per hectare

- Landowner details have been withheld for privacy reasons.
- In ordinary circumstances land values will vary both higher and lower than described above dependent upon location, topography and servicing costs.
- Sales data has been confirmed with local agents, vendors and/or valuers.

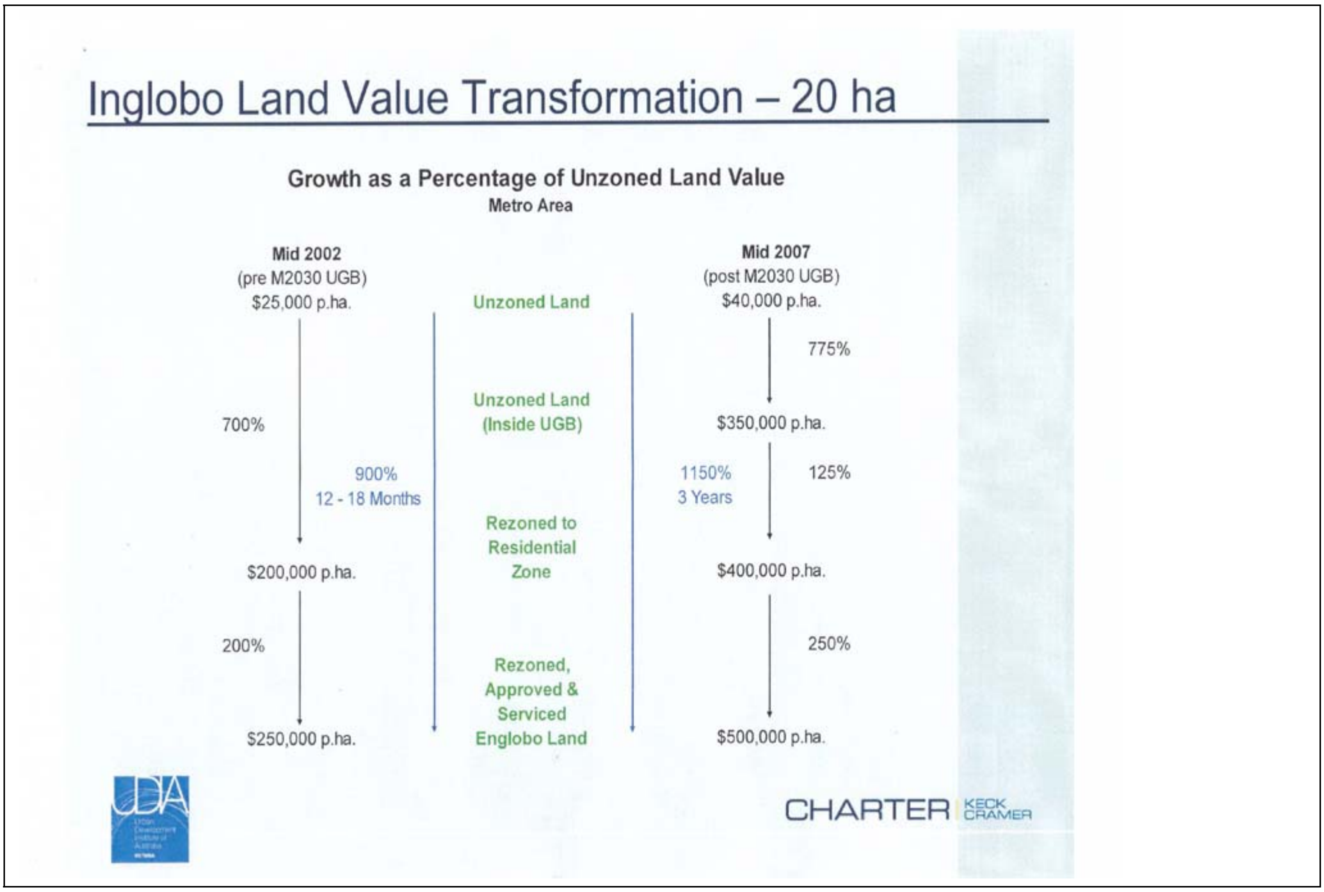
All sales are located within the Casey-Cardinia Growth Corridor which is traditionally the highest priced growth area surrounding Melbourne. It is expected areas such as Melton, Werribee, Tarneit, Donnybrook, Kalkallo and Beveridge with similar development timelines would achieve lower sale prices. It is also logical to expect that land brought into the UGB in 2009 will have lower prices due to increased supply, given that the boundary is to be extended by 41,000 hectares.

Taxed Out Inc. holds the view that the GAA have been provided with a broad body of sales information and basic property advice by CKC however that information has not isolated sales with long-term development potential nor has it considered the value of lifestyle property.

The accepted valuation principle of comparing “like with like” has not been properly applied. The result is property values are assessed too low before inclusion in the UGB and too high after inclusion in the UGB.

The following flow chart, produced by Charter Keck Cramer (CKC), formed part of a presentation by Mr. Bradley Papworth to a 2007 Urban Development Institute forum. The information contained in this presentation indicates movements in land values from a development perspective ONLY, however Taxed Out Inc. believes similar information has been provided to the GAA and used to formulate the 'first property transaction' GAIC model.

Figure 4



It is clear that by Mid 2007 CKC predict that unzoned land outside the UGB has a value of $40,000 per hectare and this value increases to $400,000 per hectare when the land is rezoned to Residential – a ten fold increase.

Importantly development is predicted to occur over a three year period, a short-term development timeframe, rather than a time frame of 10-20 years for land within the Investigation Areas and within the existing UGB designated for long-term development.

The above chart fails to acknowledge the value of lifestyle property and also fails to acknowledge the value of land with long-term development potential. In defense of CKC, this chart reflects price movements from a development perspective only and targets the acquisition of open farm land rather than small lifestyle properties between 2 to 20 hectares. Such information is unlikely to have ever been intended to justify a flat-rate taxation policy.

These critical pieces of information regarding lifestyle property values and values relating to long-term development potential are absent from the chart and also absent from all Fact Sheet information and media releases issued by the GAA.

By failing to recognize this information, the false proposition is made that a landowner will receive a windfall increase in value that can reasonably support a tax burden of either $80,000 of $95,000 per hectare. This proposition is not only false, but also either a deliberate misuse and distortion of sales data or incompetence of the highest order.

3.0 Problems associated with loss of borrowing capacity and equity, inheritance and marriage breakup cannot be resolved without shifting the GAIC to another trigger point unrelated to title ownership.

The solution to the problems and issues mentioned above is to **remove the link between the charge and the transfer of title**. There is only one alternative that Taxed Out Inc. believes can be easily implemented, provide the Government with the infrastructure charge they require, and preserve the equity that Victorians have accumulated from land ownership over a lifetime, and that is to **charge the GAIC at the point of development**.

New South Wales have a similar infrastructure charge however it is triggered when development approval is granted for that specific landholding. Landowners are free to sell the land at any time without incurring the charge, and the charge is only levied on the area of land that can be developed.

This is simple, easy to understand, and triggered at the end of the development cycle when land values are higher. In this regard a flat tax of $95,000 per hectare is a realistic cost for a developer who can trigger the charge at a time of their choosing. Critically, because the GAIC is triggered willingly there is no requirement for a Hardship Committee.

Taxed Out Inc. is aware that the State Government is considering shifting the GAIC potentially to the point where a Precinct Structure Plan is incorporated into a Planning Scheme however this fails to address the underlying problems associated with loss of borrowing capacity and equity, inheritance and marriage breakup.

This is due to the fact the GAIC is still levied on the registered proprietor. The relationship between the GAIC and title ownership must be severed to ensure landowners maintain the same property rights as all other Australian citizens.

The current GAIC proposal is fundamentally flawed in logical reasoning and raises serious issues relating to equity and administration. Whether deliberate or through oversight, the fundamental premise of "comparing like with like" in terms of property classification and development timing has not been adopted.

This has contributed to the false belief that landowners are in a position to pay the GAIC at any point after inclusion in the UGB. Taxed Out Inc. believes the evidence provided in this submission is significant and accurate and provides considerably more weight to support a complete review of the GAIC compared to the evidence provided by the Growth Areas Authority in defense of a GAIC levied on landowners.

Recommendation

Taxed Out Inc. believes that an appropriate trigger point for the GAIC is when a Planning Permit is granted for development. At this point the GAIC is payable by whoever seeks development approval and consequently there is no requirement for the establishment of a Hardship Committee to oversee personal difficulties resulting from the tax.

This approach removes the requirement for arbitrary trigger points of 4100 sqm and 2.03 hectares which unfairly discriminate against landowners based on land size. Importantly a planning permit is "site specific" so that "a one size fits all" approach is avoided. By contrast a Structure Plan trigger is a "catch all" process where hundreds of landowners will be inadvertently caught up in a process they will have little or no control over.

Taxed Out Inc. hereby expresses interest in presenting to the Committee at the public hearings on 20th and 22nd October 2009.

If you have any queries please do not hesitate to contact the writer.

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