

Pat Gerace with 5AA, Leon Byner: Land Tax Aggregations & Property Revaluations, 26 August, 2019

Pat Gerace, Urban Development Institute

(Byner: Pat Gerace ... what's your reaction to Treasury and others telling people, 'well if you don't like it, sell?') ... we're supremely disappointed about that ... we speak to the Treasurer and the Premier that the dislocation that happens here, to simply say that we're going to adjust this aggregation measure and for those who don't like it you can just sell, it just completely fails to recognise the dislocation that's going to occur ... the really important point that Darryl made before is about rental accommodation. When we have ... surveyed a number of our members, when we have investors who say it's not a question of can they absorb it, they simply won't be able to pay the bill so what they will do is sell their properties ... there might be a short-term reduction in price but the key point here is that there will be a long-term impact to the supply, people won't invest ... it's foolhardy to think that everybody who is renting at the moment might just buy a property ... because the price has gone down a little bit. We know full well that there are people who have no choice but to have rental accommodation and what we get scared about is when that rental accommodation starts to fall in terms of its supply we could very well have people saying ... 'I can't get a place and I've got to live with family members' and in the worst case scenario people say, 'well I had my lease terminated and now I don't have anywhere to live at all' ... the Government's got a housing and homelessness strategy happening at the same time as the Treasurer's introducing these changes and they don't seem to be talking to each other or thinking about the big picture here. (Byner: ... thank you ...)

Full transcript below:

Darryl Gobbett, SA Centre for Economic Studies, Adelaide University

(Byner: You would be aware that land tax and other property taxes have become wildly unsustainable. Under the proposed land tax aggregation measures land tax for thousands of hard-working local businesses and property owners will rise and in most cases to levels never contemplated or completely off the charts ... remember, there is a revaluation going on right now and I've got something to tell you about that that's just extraordinary, but others have been to the Treasurer that the impact of aggregations will mean people will have little choice but to sell. His attitude appears to be, and this is what people are telling me, 'well, I don't run your affairs, if you have to sell, sell, that's your decision', unquote ... the Treasurer does agree that people may well need to sell but that's their prerogative but ... if this is what we've come to what sort of state are we running here? Literally Government influenced forced selling, having to sell up because the Government in its wisdom chooses to implement bad policies that make people who've worked hard to build portfolios, places of business, nest eggs, or super, to maybe leave something for their children and grandchildren ... this is a very poor message being sent out by the Government for future investment. It's akin to saying, 'sell up and invest elsewhere just not here in

SA', and what happens when people start liquidating properties, what happens to the market ... I am aware that a senior Cabinet Minister has actually said to one complainant, in fact more than one, 'look, if the property that you own drops in value think of how good it'll be for first home buyers' ... it does appear as if the people leading this state have less than an idea of what the hell is going on ... Darryl Gobbett ... if a stack of people sell up what is that going to mean ... what happens?) ... we're likely to see a fall in home prices ... it'd be nice to see home prices come down to help more people in, but remember too there's going to be a significant stamp duty hit on this so the people who are buying are going to have to be paying ... the representative house price in Adelaide in the metropolitan area is about \$480,000 ... stamp duty on that is probably going to be around 25, 26 thousand dollars ... you sort of wonder how many people who are looking for affordable housing will be able to afford that, but my concern is, yes, you might see a bit of a drop in housing prices but ... that'll be over the longer term because a lot of people won't want to sell up straight away because of the capital gains tax issues. They're going to have to be paying tax to the Federal Government on top of the stamp duties they are paying here, but I have a bigger concern is that about 20% of the properties in ... South Australia are rental properties. My concern would be that the way the aggregation is working and the increase in valuations is working that we're likely to see a lot of people say ... 'I'm going to get out of this market but I'm not even going to be looking at buying or building new homes' ... we could see a situation where the amount of new housing available for rental could well fall off because ... the people who ... provide the rental housing would be saying ... 'there's just no point in me looking to build new homes for rental' ... I just don't see that the supply of rental housing or even the supply of affordable housing will go up because of this tax ... in fact it could be quite perverse, it could work the other way where we see a drop in the supply of housing because people who, as investors who fund the new housing stock, will be saying, 'I'm better off putting my money in shares or taking my money somewhere else or just spending it'. (Byner: ... with this revaluation the premises of Business SA in Greenhill Road they've just had a 46% increase in land tax, their council rates, water or sewerage if you like, NRM, ESL, Zero Waste, they're going to go into orbit and that's before any aggregation.) That's right and this is ... when the Government talks about ... we're bringing down ... the land tax rate, well remember ... our top land tax rate of 3.7 hopefully go to 3.6 cuts in at \$1.3 million ... if you're in New South Wales or Victoria you'd be paying no more than 1.6% at that, so the Government's talking about bringing down the top rate but it's really only going to come down for the very big end of town ... it's rather perverse that here's a Liberal Government that is ... sort of saying ... 'we're going to change the tax regime, you'll all be better off', well the small end of town, the mums and dads investors are going to be far worse off and even ... businesses like Business SA it'll be the big end of town ... we saw a Singaporean business has just paid \$140 million I think for The Black Stump in Grenfell Street ... they'll see a drop in their land tax rate, whereas most mums and dads, the people who provide most of the affordable and rental housing in South Australia are going to see an increase and many of the businesses that are important to South Australia will see an increase ... they are talking about the rates coming down, well they are not actually coming down for most of the smaller investors ... the land tax in South Australia ... 3.7% at \$1.3 million, New South Wales that's 1.6% and in Victoria it's point eight of a percent, so we're still going to have a land tax rate which may well be around at least two percent if not two and a half percent higher than any other ... comparable states for the same

valuation, so this idea the land tax is coming down ... is just a complete misrepresentation of what's going to go on ... it's another sign of very bad policy making. The Government really has no idea how this is going to impact. I'd like to see the modelling, why don't they release that ... as Michael O'Neil has said, why don't they release the modelling which is going to show both the impact on the tax system but also on housing and construction activity in this state, what is going to happen? *(Byner: ... thank you.)*

Pat Gerace, Urban Development Institute

*(Byner: Pat Gerace ... what's your reaction to Treasury and others telling people, 'well if you don't like it, sell'?) ... we're supremely disappointed about that ... we speak to the Treasurer and the Premier that the dislocation that happens here, to simply say that we're going to adjust this aggregation measure and for those who don't like it you can just sell, it just completely fails to recognise the dislocation that's going to occur ... the really important point that Darryl made before is about rental accommodation. When we have ... surveyed a number of our members, when we have investors who say it's not a question of can they absorb it, they simply won't be able to pay the bill so what they will do is sell their properties ... there might be a short-term reduction in price but the key point here is that there will be a long-term impact to the supply, people won't invest ... it's foolhardy to think that everybody who is renting at the moment might just buy a property ... because the price has gone down a little bit. We know full well that there are people who have no choice but to have rental accommodation and what we get scared about is when that rental accommodation starts to fall in terms of its supply we could very well have people saying ... 'I can't get a place and I've got to live with family members' and in the worst case scenario people say, 'well I had my lease terminated and now I don't have anywhere to live at all' ... the Government's got a housing and homelessness strategy happening at the same time as the Treasurer's introducing these changes and they don't seem to be talking to each other or thinking about the big picture here. *(Byner: ... thank you ...)**

Stephen Mullighan, Shadow Treasurer

*(Byner: Steve Mullighan ... when Labor was in Government wasn't this piece of policy put up to Treasury or the Treasurer and each time it was knocked back, true or false?) Yes that's correct ... this was served up on more than one occasion by the Treasury ... to the Treasurer of the day and it was ... knocked back ... *(Byner: Why was it knocked back?)* ... for a few reasons ... the most recent time that it was served up by Treasury it was during the 2015 review of State taxes ... the idea of that review was to try and find a State tax which could be cut or abolished to try and stimulate some economic activity, not necessarily impose a higher tax burden like this aggregation measure does in land tax ... as a result of that the Government chose to abolish stamp duty on commercial property transactions, so when you see a Singaporean company come in and spend up very big on buying commercial property buildings like The Black Stump and invest in South Australia one of the key reasons why is because we are the only state in the country that doesn't charge stamp duty on those commercial property transactions ... the other reasons why ...*

is exactly what your previous contributors, Darryl Gobbett and Pat Gerace have referred to and that's the complexity and the difficulty for Treasury in understanding exactly how many people are going to be impacted and what those impacts will be not just on those people but also on the people who are renting those properties, on the broader economy, and the housing market. We're talking about 35,000 land owners who pay land tax with taxable land earnings of less than a million dollars, so this is not the top end of town, these are tens of thousands of South Australians who own property with a total value of less than a million dollars. Many of those own multiple properties and if the response from Rob Lucas and other senior Ministers is, 'well if you don't like our changes in the land tax well you can just sell it', well how is our housing market going to sustain tens of thousands of properties flooding onto the market in a short period of time? And how are those property owners also going to stomach potential capital gains tax bills where they're going to cop in addition to the threat of being aggregated for ... higher land tax bills ... I would have thought that ... a good Government and its Ministers would be sitting down listening to the concerns of people trying to provide some answers, trying to provide some reassurance about that they've got an open mind to what the changes will be, and if there are going to be changes which will impact South Australians that there is some sort of thought to how do we implement this in the gentlest way possible, but instead of that we seem to have a Government that's got a tin ear, which is starting to behave, to be frank Leon, with a bit of arrogance telling people if you don't like what our policies are get out of the game, you can just sell your property ... (*Byner: What do you think the Government should do?*) ... the Government needs to take these concerns seriously ... when they're being visited by industry representatives like Pat Gerace from the Urban Development Institute ... or by people from the Master Builders Association who are saying ... 'our members have got real concerns here, they don't know how they're going to be impacted, we could see thousands of properties flooding onto the real estate market, we could see renters being faced with higher rental bills' ... the Government should be taking that into account and they should be either changing their policy or fine-tuning their policy to try and minimise those impacts, but instead it seems from these reports we've got a Treasurer and a Government which is just telling people basically to nick off and if you don't like it, well you can sell your property and it won't affect you and I just don't think that's good enough, Leon. (*Byner: There are senior Liberals saying that you, Labor, will not oppose this. Have you worked out your position and why would they be saying that?*) ... I'm not sure why they're saying it, we certainly haven't formed our position yet because we have got nothing to form our position on. The Government continues to tell people that they are still developing their policy, that they're still developing their legislation and that legislation will sort out exactly who is going to be impacted and we should know from that how much they will be impacted and we can get some understanding to meet some of Darryl Gobbett's concerns about what the economic impact of this is going to be, what the impact on the housing industry is going to be, but given that we've got a Government which still hasn't done this work, still can't tell South Australians what these changes will be, no one's in a position to make up their mind on it ... we're also hearing that there are disgruntled members of the Liberal backbench who are waiting for the opportunity to cross the floor and vote against their own Government on this because ... they didn't put their hand up to run for Parliament for a Liberal Party which was going to break its promise to South Australians and rather than introduce lower taxes massively ramp up taxes, fees, and charges including this land tax aggregation measure. (*Byner: Alright ... thank*

you ... there's going to be more to this ... I can promise you, but it is very clear, I've had enough people contact me ... telling me the attitude of the Government is, well if you don't like it, sell. That's not consultation, that's just hubris.)

Peter Malinauskas, Opposition Leader

(Byner: One of the great lessons when you are either in government or seek to be is that you should be honest with your electors. If you are going to promise something, you have to deliver it. If you are going to say we are not doing it, you have to deliver not doing it. Now you remember ... the closing of the Repat, never mentioned before Labor was re-elected, soon as they got re-elected out it came, they would have known. And they got slammed and slammed for it. Such is the case here where the Premier said; privatisation is not on our agenda, period. He said it more than once. So what we've not got from an FOI ... the branches that the Government wanted to shut or basically give over to somebody else but in a different form, were the busiest in town. Well there's been an FOI ... and data shows just how stupid and ill-thought out the idea of closing these three Service SA depots was and still is. Let's talk to the Leader of the Opposition, Peter Malinauskas. Peter, tell us the story.) Well good morning Leon. Well firstly, let me start by thanking the continued interest of your program into this important issue because there are literally hundreds of thousands of South Australians Leon, that rely upon the services provided for at Service SA centres and the fact that the State Government is closing three of them is significant but what these FOI documents reveal is just how significant that is because the Prospect, Modbury and Mitcham Service SA centres are officially, according to these records, some of the busiest in the state. I mean the Prospect Service SA centre alone Leon, to give you some context, over 191,000 transactions occurred there in the previous year. Now that is an astonishing statistic, it actually brought in revenue to the tune of \$25m for the South Australian Government in that one financial year alone Leon. That's just one of the three Service SA centres that is closing down and what I think has so many South Australians so concerned is that we have a government who appears to be making this up as they go along. They announced they are closing them without any forewarning as you mentioned, then they promised that within months, on your program, Stephan Knoll was saying they'd be announcing what was going to replace this service and yet we are still waiting. Then we've learned that they've failed to rule out the privatisation of the centres, then we've learned they've had to extend the lease as demonstration of the fact that they are making this up as they go along at some of the centres. So we think people are rightly frustrated about this ... this is an ongoing issue and we think what really needs to happen is Steven Marshall should backflip on this decision and if he does, I would welcome it. We wouldn't be seeking to make politics out of it, we'd be seeking to welcome that decision because it would be the right one and if he doesn't do that, of course Labor has got a costed policy position that we would reopen these three Service SA centres in the event that they close. *(Byner: While I've got you there, your compadre about half an hour ago, Steve Mullighan was very critical of the governments land tax policy, I can tell you and I don't think this would be news to you that there are some Liberals who are telling people, well it's going to happen and the opposition will agree to it. And yet, we have no position stated by you guys. Now as Stephen has said and you've said, well we have to wait to see what we've got to pass this legislation, but surely you have an opinion on what's going on right now. Given the duress about the revaluation and the costs that are*

going up and indeed the amalgamation.) There is absolutely no doubt Leon that the land tax hike being imposed by Steven Marshall is causing a lot of concern within a very, very important industry in our state. We know that construction jobs are on the decline, we know that the unemployment rate in South Australia is now the highest in the Commonwealth and we know that there are a lot of people who work in this high employing industry are worried about the imposition of higher land tax, particularly considering Steven Marshall was so clear about promising land tax cuts. We are going to think about this position very carefully Leon, we are not going to make policy on the run, I think one of the reasons why the State Government is in this position is because Steven Marshall promised one thing before the election without actually working out how he was going to pay for it, he promised he was gonna deliver massive land tax cuts and then after they got elected, they're trying to work out how they're gonna cover it up and that's why they're now introducing a land tax hike ...

(Byner: ... the revaluation is something that happened under your watch, when I say your, your previous government's watch right, so that in itself is delivering some amazingly big hikes to people across the board, that's ordinary people, before you even get to this amalgamation.) Well the process Leon of course of the actual revaluation exercise if occurring under the State Government and the former State Government never once saw the benefit of additional revenue as a result of that, so it's Steven Marshall's Government that is receiving all that additional revenue. But I take your point, this revaluation exercise is coming on top of the changes to the land tax regime. *(Byner: ... on one hand you are really having a go at the Marshall administration or the Rob Lucas decision to choose this amalgamation at a rate that is highly uncompetitive by their own admission, and they are telling people if you don't like it, sell ... but you are not prepared to say what you would do.)* Well that's because Leon we haven't even seen the legislation yet ... that is not how good government operates. *(Byner: Frank Pangallo from SA-BEST is calling for a senate select committee to have a look at all this, last I spoke you guys were in favour of that, still in favour of it?)* Yes, absolutely in fact we believe it should be a joint house select committee and we provided support to Frank in that exercise ... this is what's even more bizarre Leon, is that we are now months after the state budget, months after the state budget and we are all sitting around, they've announced what they're doing, they've announced how much revenue they are raising and they haven't even released the legislation. Now the Government says they're out there consulting, but they keep pushing out these dates, where was the consultation before they made the decision. It all seems to be the complete wrong way around. But rest assured to you and your listeners, that when the opposition develops its position on this issue, it will be a function of thinking through it thoroughly and also taking into account of course opposing a revenue measure within a budget would be a very significant undertaking. *(Byner: Hang on a minute, you are not actually doing that because the legislation for land tax will be separate, you know that don't you?)* Yes but of course it contributes to the State Government's budget and we saw the former Government, sorry the former Opposition under Steven Marshall, take a reckless approach. We are not going to do that, we are going to think this through and when we've got a considered position, I am more than happy to come on your program Leon and face the scrutiny of you and your listeners accordingly. *(Byner: Alright, Leader of the Opposition, Peter Malinauskas.)*

Leon Byner, Presenter Land tax

Now, this is an extraordinary situation ... I've got a letter here ... he says, *"I want to talk about my mum. She's held properties for thirty to fifty years as a means of superannuation to provide for a self-funded retirement. These properties were acquired by sheer hard work, working in factories and run a 7 day a week corner deli, many sacrifices were made, and significant amounts of taxes paid only to see it go to waste with these punitive tax measures. You can see the percentage of rental income that is required to pay land tax will climb from 3.7% to 21.76% if the amalgamation and site value uplift of 20% comes into play. The increase is nowhere near as dramatic if the Victorian land tax rates are applied. Three of the four properties held in her portfolio provide residential housing for 11 tenants. She would be forced to sell down and indeed she would have to either pass on the rent increases, which would put these people out on the street, or go and invest the money somewhere else or maybe on the stock market."* Hence this ... 'if you don't like it sell, sell, sell'. Gee, that's really clever consultation, isn't it? And, by the way, do not let Treasury off, don't let 'em off because they came up with this stuff ... I clarified it deliberately ... these people have come up with this stuff before, but the socialists ... said 'no you can't do this', but you've got a Liberal Government doing it and saying, 'well if you don't like it, sell'. How perverse is that ... I'll give you a little tip: Something will break in the next 24 hours that's going to throw this whole thing up in the air. You watch. I'll tell you tomorrow, I'll tell you tomorrow.

Leon Byner, Presenter Land tax

Now, this is from Rosie: *"Our family has several properties. Our predicament: Do we sell or not? Does the Government think because we have properties that we are cash rich? One property went from 600 value to 830. Haven't seen all valuations yet. Mum's land tax on two properties within 10 minutes of the city will go from 9K to 19K a year. Do we put up the rent a hundred dollars per week on each property to cover the land tax? Do we sell and then buy more properties in the outer suburbs? There will be no inner city houses available for rent. I have a property at Norwood purely for land value, capital growth and my retirement fund when I sell it. It's currently rented out at a low amount. Do I charge my tenant an extra 150 per week to cover land tax? Thanks to the Government, we've looked into land tax and have worked out that once you own more than 750K worth of property you'd be better off investing elsewhere. If everybody sells and the price of housing goes down will the valuations go down? We are so unsure what to do, we have no idea who we should talk to."* Well Rosie, just be very careful and sit tight. Now, I'm not telling you this because I know something that you don't, but I'm telling you this, that the Government so far are telling people to sell if they don't like it. I don't believe there's any consultation ... it's just go and sell or isn't it exciting that the price of property will come down ... but I'll tell you this, that is that the thing you need to worry about right now is the revaluation ... Business SA have just got their valuation and land tax bill on the revalued improvement of the value of their property on Greenhill Road. Their land tax is up 46%. Now, they're doing the sums on sewerage, council rates, ESL, NRM, Zero Waste. All of those will be up. You, whether you are an investor or not, are going to be subject to the same kind of revaluation. So far, the revalued suburbs are seeing massive increases in property values. 'Oh you're rich, you can just pay

up.' That's before, before any of these amalgamation issues. So, we'll keep you well-versed on this, but don't do anything now rash, talk to a professional adviser, but at this stage I'd just be sitting on my hands because what you don't want to do is make a move which will