3. Property Taxation in Australia

Australia is a federation with three levels of government: federal, state, and local. There are six states and two territories. There are 143 urban municipalities and 587 regional and rural municipalities in the country. Constitutional responsibility for local governments rests with the States and Territories. They provide the legal framework in which local governments operate and oversee their operations. The States and Territories mandate the electoral system, establish municipal boundaries, and regulate local services. Property taxes are different in the different states.

Property taxes comprise the land tax, municipal rates, financial and capital transactions, and other property taxes levied. Table 1 provides a breakdown showing the level of government that levies each of these taxes. This note focuses on the State land tax and municipal rates, with a particular focus on New South Wales.

Table 1: Distribution of Property Tax Revenues, by Level of Government, Australia, 1999-2000

<table>
<thead>
<tr>
<th></th>
<th>Commonwealth</th>
<th>State</th>
<th>Local</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land tax</td>
<td>0.0</td>
<td>100.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Municipal rates</td>
<td>0.0</td>
<td>1.6</td>
<td>98.4</td>
</tr>
<tr>
<td>Financial and capital transactions</td>
<td>0.0</td>
<td>100.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Other property taxes</td>
<td>1.6</td>
<td>98.4</td>
<td>0.0</td>
</tr>
</tbody>
</table>


Revenue Importance

Table 2 provides a breakdown of the sources of revenue to local government in Australia in 1999-2000. It shows that local governments received an average of 60 percent of their revenues from taxes (municipal rates). The circumstances of individual councils within states and between states and the Northern Territory do vary considerably from the national average, however. For example, the use of property taxes ranges from a low of 25 percent of local revenues in the Northern Territory to a high of 80 percent in South Australia.

Over the last 40 years, there have been changes in the distribution of municipal revenues. In particular, municipal rates are now a smaller proportion of local government revenues; user fees are larger; Commonwealth transfers have increased; and State transfers have remained roughly the same as in the 1960s.

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### Table 2: Sources of Local Government Revenue, Australia, 1999-2000

<table>
<thead>
<tr>
<th>Revenue sources</th>
<th>% of total revenues</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxes</td>
<td>60</td>
</tr>
<tr>
<td>Net operating balance*</td>
<td>12</td>
</tr>
<tr>
<td>Interest</td>
<td>3</td>
</tr>
<tr>
<td>Grants</td>
<td>18</td>
</tr>
<tr>
<td>Other revenue</td>
<td>6</td>
</tr>
</tbody>
</table>

*Net operating balance measures the full cost of providing government services including unfunded superannuation and non-cash items such as depreciation.


### Tax Base

The land tax is a state tax on the ownership of land (including vacant land or a flat or home unit). In New South Wales, land used for the principal place of residence (up to a threshold level), primary production, maintaining endangered animals and birds, retirement villages and nursing homes, non-profit association, some government or semi-government bodies, and Aboriginal Land Councils are exempt from the land tax.

Municipal rates are levied on a variety of tax bases in Australia. Local governments can levy a property tax on:

- **unimproved land value**: the amount which the fee simple of the land might be expected to realize if sold, assuming any improvements had not been made.

- **land value or site value**: similar to unimproved value except that improvements such as clearing, excavating, or grading are not disregarded in determining value.

- **improved value of land and buildings**: is the market value which the property might be expected to realize if sold.

- **rental value of land and buildings**: gross annual rental value that the land and buildings might realize if leased.

The following summarizes the base used in each State:

- **Tasmania**: land value base is annual rental value.
- **Queensland**: land value (unimproved value) is used for urban and rural areas.
- **South Australia**: four councils tax land values and the remainder tax improved values.
• Victoria: 61 municipalities use capital improved value, 11 municipalities use net annual value, and 6 municipalities use site value.
• New South Wales: land value (replacing unimproved value in 1978) is used for residential property and assessed annual value for non-residential properties.
• Australian Capital Territory: only the land is taxed.

In some states, a combination of bases is used. For example, rental value for land and buildings can be used for commercial and industrial properties while only unimproved land is taxed elsewhere. In valuing property, reliance is mostly placed on the comparable sales method.

Exclusions include machines, tools, or other appliances not affixed to the property or which could be removed. Exemptions are determined by the state or territorial governments. Although there is variation in the use of exemptions, the most common ones are publicly-owned land, public hospitals, libraries, cemeteries, charities, church lands, universities, schools, foreign embassies. A number of states exempt the owner’s principal place of residence either entirely or up to some threshold value.

**Tax Rates**

For both land taxes and municipal rates, tax rates are uniform but there are different rates for different land uses. Often rates are reduced on agricultural land at local discretion. For example, primary producers pay half the rates payable by non-primary producers. This tax policy encourages land speculation by rural enterprises such as market gardens and nurseries which still enjoy windfall profits when land is rezoned to a higher use.³

The land tax is levied by states on the unimproved value of the land at its highest and best use either by a flat rate or a progressive rate. In New South Wales for 2001, the land tax rate is 1.7 percent applied to the total value of property assessed beyond the land tax threshold (which was $205,000 in 2001). This means that taxpayers are liable if the aggregate value of the land they own, other than a principal residence, has a total value of $205,000 or more. The land value threshold is linked to the annual increase in the value of commercial, industrial and residential land across New South Wales. The premium property tax for 2001 only applies to principal residences where the land value is $1.319 million or more. The land value threshold for the premium property tax is indexed according to the average change in residential land values in the Sydney statistical division. The threshold will not fall if land values fall, however. There is also an early payment discount of 1.5 percent. The other states and the Australian Capital Territory levy progressive fixed rates or percentages on various ranges of value.

Municipal tax rates are determined on the basis of local budgetary requirements and include general rates on all property owners or specific rates imposed for a special

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purpose, e.g. for infrastructure improvements. In New South Wales, for example, ordinary rates cover council’s basic costs; special rates are charged for services provided by council or for special purposes such as water supply, sewerage, and drainage. Ordinary rates can vary for different types of land. There are four categories of land (residential, farmland, business, and mining) and sub-categories may be established under each of these categories.

In New South Wales, ordinary rates and special rates may be assessed entirely on land values or with a two-part structure. The two-part structure comprises a base amount and an amount calculated using land value. The base amount must not produce more than 50 percent of total revenue from a particular category or sub-category of rate. The base amount for ordinary rates will generally be determined by administrative and general operational costs; for special rates, it is determined by administrative services costs. Municipalities may also charge a minimum rate on each parcel of land. Furthermore, the state government sets a limit on the percentage increase in income that municipalities can achieve from rates each year.

Concessions are available for eligible pensioners. In the inner suburbs of Sydney, local councils either allow rebates or rate reductions for pensioners (e.g. tax deferrals). Other concessions are also available for vacant land or where zoning anomalies exist or for heritage properties. Municipalities can also reduce the rates in cases of genuine hardship.

Administration

The titling system in Australia (the Torrens system) is administered by the Registrar of Deeds and the Registrar of Titles and ensures certainty of rights in property.4 The State governments prepare the assessment rolls and submit them to the local governments who set the tax rates, administer, and collect the taxes. Valuations are established by the State’s Valuer General; these values are used for both the land tax and the local government rates as well as government land acquisitions, rentals and transfers between agencies. Valuations are also used for stamp duties, land transfer taxes, or water rates based on land values.

The valuation cycle differs among states, ranging from 4 to 7 years. Values are not indexed or adjusted outside of the revaluation cycle. New South Wales and South Australia apply equalization factors between general valuations to adjust the land value for the land tax to reflect more current market values and achieve greater uniformity. The Valuer General determines the equalization factor each year for each zone in each local government area. The factor, applied to the nominal land value, approximates the value that would have been applicable had general valuation taken place. Assessed annual value is nine-tenths of the fair average annual value of the land, with the improvements or $10 whichever is greater.

Throughout all of the states in Australia, emphasis is being placed on more frequent revaluations. Although the State of Victoria has moved to a two-year cycle, there is a trend towards annual revaluation in some cases at the state level (for example, Western Australia) and in some cases at the city level (for example, Melbourne, Brisbane, and Cairns)\textsuperscript{5}.

In New South Wales, the valuations for the land tax are made by the Chief Commissioner of State Revenue on July 1\textsuperscript{st} preceding each land tax year. These valuations are not the same as the those made by the Valuer General for rating purposes. An allowance, or reduction in land value, may be applicable where expenses for land improvements have been made by an owner, occupier, or lessee. Assessments can be appealed to the Chief Commissioner of State Revenue within 60 days of receiving an assessment. A review of this decision to the Administrative Decisions Tribunal or the Supreme Court can be requested. A review of a land value decision can only be made to the Land and Environment Court.

As noted above, local governments are responsible for collecting the taxes. Tax arrears vary across municipalities. For 1998/99, outstanding rates, annual charges, user charges, and fees were 6.6 percent, on average, for municipalities as a whole in New South Wales.

Other Taxes on Land

Stamp duties are levied by state and territorial governments, usually as a percentage of the transfer price. In New South Wales, for example, there is a tax on the transfer of land or business. Duty is payable by the transferee or the purchaser. The rate of duty is calculated according to Table 3:

<table>
<thead>
<tr>
<th>Dutiable value of the dutiable property subject to dutiable transaction</th>
<th>Rate of duty</th>
</tr>
</thead>
<tbody>
<tr>
<td>$0-$14,000</td>
<td>$1.25 for every $100 or part thereof</td>
</tr>
<tr>
<td>$14,001-$30,000</td>
<td>$175 plus $1.50 for every $100 or part thereof</td>
</tr>
<tr>
<td>$30,001-$80,000</td>
<td>$415 plus $1.75 for every $100 or part thereof</td>
</tr>
<tr>
<td>$80,001-$300,000</td>
<td>$1,290 plus $3.50 for every $100 or part thereof</td>
</tr>
<tr>
<td>$300,000 - $1,000,000</td>
<td>$8,990 plus $4.50 for every $100 or part thereof</td>
</tr>
<tr>
<td>over $1,000,000</td>
<td>$40,490 plus $5.50 for every $100 or part thereof</td>
</tr>
</tbody>
</table>

Most states charge fees to developers to compensate local governments for improvements in infrastructure necessitated by the development. In some states, water and sewer availability charges are based on rateable land values.

A capital gains tax was introduced in Australia in 1985. It applies to all assets acquired after September 20, 1985 with the exception of a principal residence.

\textsuperscript{5} \textit{Ibid}, p. 42.
Sources:


