UDIA

Urban Development Institute of Australia

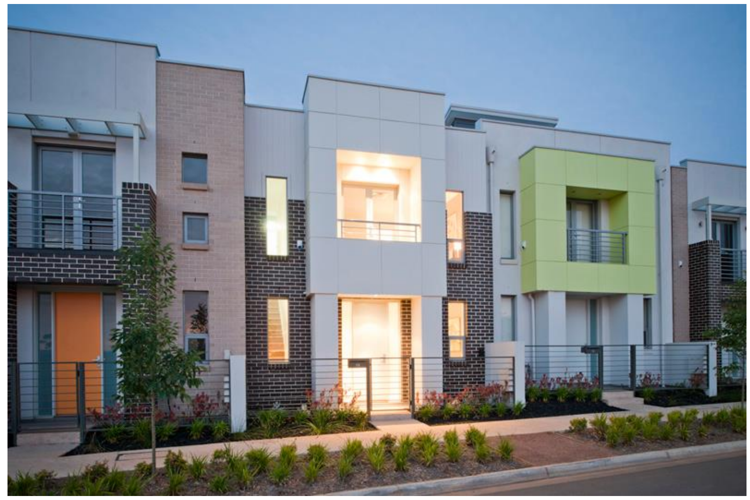
SOUTH AUSTRALIA

UDIA State Budget Submission 2019-20

Introduction

The goal of the Urban Development Institute of Australia (SA) is to promote, foster and advance a healthy, dynamic and efficient development industry through:

- The provision of high-quality information and services to members including developers, builders, industry consultants, government entities and the community
- Competitive and innovative private sector involvement
- Close and timely liaison with the public sector in the strategic and policy aspects of the industry.



Established in 1971, the UDIA (SA) represents the interests of the urban development industry in South Australia in collaboration with all levels of government.

The UDIA represents over 150 businesses in South Australia, 4,000 on a national basis and is the peak body of the urban development industry.

As the fifth largest contributor to output in SA, the property development industry employs 56,000 people or 9% of the Nation’s total workforce, and accounts for almost $9 billion or 12% of Gross State Product.

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Action for Growth – Land Tax

Background

UDIA (SA) supports tax reform to create a tax system which is more sustainable, fair and efficient for all South Australians. We believe that the State tax system needs to reward effort and not stand in the way of those wanting to invest, grow and create jobs.

Land Tax

In this budget the UDIA is calling for specific and targeted amendments to land tax which will ensure that we improve South Australia as a place to do business.

The UDIA has made submissions in the past calling on the introduction of a broad-based land tax as part of a strategy to abolish stamp duty. There are significant changes that can be made in the upcoming budget to improve South Australia as a place to do business, and importantly improve housing affordability for those that need it most.

Current arrangements

Land tax in South Australia does not apply if it is your principal place of residence which recognises the impact on those who can afford it least. Unfortunately, however, land tax ends up being indirectly passed on to many new homebuyers due to the nature in which land tax is levied.

As opposed to static building owners, developers can be differentiated and are more akin to a supply chain of sorts when they create new dwellings for sale to consumers. Even though many developers are not long-term land owners, unfortunately they are treated in the same way, even though they don't receive rental yield from their investment. There is currently no differentiation when it comes to the application of the land tax and holdings calculated at 30 June each year. Unfortunately, this creates unnecessary and unproductive behaviours costing the State jobs.

Currently, land tax impost is applied to holdings which are titled into lots. To avoid large land tax costs being applied, developers usually restrict their holdings near 30 June to a minimum level, and refrain from creating new titles on developed land in the weeks prior to 30 June due to fears that such properties might be unsold.

The system as it stands discourages developers from developing large land holdings for a lengthy market campaign and they are forced not to release allotments to the market.

Land Tax Impact on Development:

- Distorts the general availability of land 'at smoothly varying prices' to the market for purchase by buyers by restricting the availability of land owned by a developer in near or actual developed-state ready for purchase by a home buyer;
- Causes 'ineffective lumpiness' in the flow of work by planning staff in local councils where development approvals are carried out between council staff and developers; and
- In greenfield areas - impacts on the economic sustainability of civil earthworks contractors as developers are compelled to produce small land division stages which are costlier than larger stages. Civil contractors are restricted in their profitability when providing small scale works.

Land Tax Aggregation

Further to the above, in the event that land is being held by developers as at 30 June because it has not been sold, the end consumer ends up paying as part of the cost as developers have no choice but to pass on. More often than not this is on the purchaser's primary place of residence.

Many developers would have in excess of $1m of stock for sale in land estates at any one time and because of the aggregation impact the costs passed on are quite considerable. This is because land tax is based on a sliding scale rate, with higher rates applying to higher valued property. At the moment land tax is payable irrespective of the length of time of ownership of the property.

On a modestly priced allotment assessed at around $120,000 the land tax assessed on a multiple holding basis is around $3,500, with a $140,000 lot attracting land tax at circa $4,100. Allotments in this price bracket are exactly what are typically sold to first home buyers – this tax would often have to be factored into the allotment pricing considerations by a developer. When one considers that this money is borrowed by the homebuyer for the life of their loan, the cumulative effect to that home owner is massive.
The aggregation of property values for the purpose of land tax is also a serious economic impediment to developers and investors holding multiple commercial and residential holdings.

The current system of aggregation distorts the market by favouring small investors. This creates less certainty for more of the rental market as the large land holders are often more likely to provide longer rental terms. It also means that the increased costs are recouped via increased rent which is passed on to residential and business tenants.

All of the factors make investment in SA less attractive and cause investment to be made in other states instead.

Commitment sought:

- Reintroduce land tax exemptions for land held by developers. That is, land that is zoned residential and undeveloped to the extent of not yet having development approval for a building, and allotments that remain unsold to a non-developer buyer, should be exempt from land tax for three years. This would reduce the land tax impost being applied to the price of the land when ready for market purchase by a home buyer with consequent negative impact on housing affordability.
- Use a cap on land tax to be collected annually so that SA is no more expensive to invest in than any other State.

Continuing Reform - Stamp Duty

Background

UDIA supports the abolition of stamp duty on the purchase of property.

Stamp duty is an inefficient tax. As a transactional tax, stamp duty is vulnerable to economic activity and therefore it is a volatile revenue base for the State budget.

Stamp duty acts as a disincentive to business and the private sector as it impedes turnover of stock and encourages property owners to hold onto existing properties rather than find new accommodation which is more suited to their current needs.

The single biggest transactional cost for purchasers of residential property is stamp duty.

The negative impacts of stamp duty include:

- Discourages ‘empty nesters’ from ‘downsizing’ from their large family homes into more appropriate accommodation. In turn, these family-friendly homes are unavailable to young families thus impacting housing affordability and efficient use of existing facilities such as schools.
- Unfairly penalises households for moving into accommodation that better suits their needs.
- Reduces worker mobility and potentially exacerbates labour surpluses/shortages in different parts of the country (it increases journey to work time, distance and cost).
- Makes housing costlier for first home buyers.
- Discourages investors and business from participating in the market.

The UDIA continues to call for the tax system to be overhauled and stamp duty abolished.

Commitment sought:

- Short term - Abolish stamp duty on all new housing products in all locations under the median house price to increase housing supply, reduce housing prices and stimulate economic activity.