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POLICY FACT SHEET:

# ABOLISH LAND TAX AGGREGATION RULES

2017 STATE ELECTION

## THE ISSUE:

Current land tax aggregation rules discourage investment in the WA property market.

## WHY:

Aggregation rules unfairly penalise investors for owning multiple properties, as investors are taxed on the total (aggregated) unimproved value of their land holdings. The situation is worsened if an investor owns highly valued land holdings, as they are assessed at higher rates and thresholds.

This impacts the property market by softening buying activity levels and increasing the number of dwellings on the market, as holding property becomes less attractive compared to other assets.

## FACTS:

- In the 2016-17 State budget, the WA State Government collected \$896 million in land tax revenue<sup>1</sup>.
- The Economic Regulation Authority (ERA) estimated the average land valuation (unimproved value) in WA to be \$384,708<sup>2</sup>.
- On an unimproved value of \$384,708, WA property investors pay the third highest amount of tax in the nation.
- Land tax rates have increased for three consecutive years from 2013-14 to 2015-16
- The Treasurer, the Hon Dr Mike Nahan MLA, in his 2016-17 Budget Speech said "...we will examine options to reduce the financial impacts [of land tax] on property owners going forward, including the impacts of aggregation."<sup>3</sup>

## ANALYSIS:

Table 1: Example of the impact of aggregation on residential land holdings.

Land Tax Payable			
	Unimproved Value	Tax Payable (with aggregation)	Tax Payable (without aggregation)
Investment Property One	\$370,000		\$300
Investment Property Two	\$400,000		\$300
	<b>\$770,000</b>	<b>\$1,175</b>	<b>\$600</b>

In this simple example, it is clear that aggregation rules inflate the amount of tax collected on an investment portfolio. In Table 1, the investors' land tax bill is almost two times larger than the amount payable if the property holdings were not aggregated.

The removal of land tax aggregation rules will stimulate activity in the residential and commercial markets as holding property becomes more attractive. Table 2 outlines scenario analysis of the increases in sales

volumes for both residential and commercial property markets as a result of this reform. It estimates the impact on the State budget.

To determine the loss of land tax revenue from the policy reform, the proportion of residential and commercial transactions that are aggregated is weighted. It is assumed that five per cent is residential and 15 per cent is commercial, therefore the state would lose \$168,700,000.

Table 2: Scenario analysis for market stimulus.

Five year average volumes for dwellings (houses and units) in PMR	36,104		
Five year average volumes for commercial sales in PMR	1,582		
Increase in residential sales volumes (over one year)	5,410	8,067	10,000
Increase in residential sales volumes (over three years)	16,231	24,200	30,000
Increase in commercial sales volumes (over one year)	1,500	3,000	4,300
Increase in commercial sales volumes (over three years)	4,500	9,000	12,900
Stamp duty payable on five year median price of \$503,400	\$17,926.50		
Stamp duty payable on commercial property at a value of \$2 million	\$32,315.50		
Additional residential stamp duty generated in year one (at Treasury forecast of 1.3% house price growth)	\$96,982,365	\$144,613,076	\$179,265,000
Total additional residential stamp duty receipts collected over three years	\$290,947,095	\$433,839,227	\$537,795,000
Additional commercial stamp duty revenue to State Budget	\$48,473,250	\$96,946,500	\$138,956,650
Total additional commercial stamp duty receipts collected over three years	\$145,419,750	\$290,839,500	\$416,869,950
Land tax assessed on residential land unimproved value of \$384,708	\$300		
Additional land tax revenue from residential transactions collectable by the State	\$4,869,300	\$7,260,000	\$9,000,000
Total additional residential land tax receipts collected over three years	\$14,607,900	\$21,780,000	\$27,000,000
Land tax assessed on commercial land unimproved value of \$800,000	\$1,250		
Additional land tax revenue from commercial transactions collectable by the State	\$1,875,000	\$3,750,000	\$5,375,000
Total additional residential land tax receipts collected over three years	\$5,625,000	\$11,250,000	\$16,125,000
Current State land tax revenue forecast for 2017-18 (Three year average of Treasury forward estimate revenue)	\$964,000,000		
Estimated annual loss to State land tax revenue as a result of removing aggregation rules	\$168,700,000		
Total additional stamp duty and land tax receipts per annum	\$152,199,915	\$252,569,576	\$332,596,650
<b>Net position to budget</b>	<b>(\$16,500,085)</b>	<b>\$83,869,576</b>	<b>\$163,896,650</b>

## ASSUMPTIONS:

- That 10 per cent of residential investors own more than two properties for the purpose of aggregation.
- Average land valuation (unimproved value) of \$384,708.<sup>4</sup>
- Current land tax rates.<sup>5</sup>
- It is assumed that 50 per cent of land tax revenue is generated from residential transactions, whilst 50 per cent is from commercial transactions.
- 70 per cent of commercial investors hold one property to the estimated unimproved value of \$2 million.
- 60 per cent site coverage on an average commercial transaction, therefore 40 per cent for unimproved land value (\$800,000).
- Based on the ABS Census data from 1996 – 2011, there was three per cent annual average growth in the number of investment properties in the private rental market.
- Projected population growth is estimated at 1.6 per cent.<sup>6</sup> It is assumed that one in four households of the population growth will buy an investment property if aggregation rules are removed.
- It is assumed that 10% of residential land tax revenue is aggregated and 30% of all commercial land tax revenue is aggregated.

## ACTION:

REIWA is calling on all political leaders to commit to removing land tax aggregation rules in the 2017 State Election.



<sup>1</sup> 2016-17 State Budget, Budget Paper No.3.

<sup>2</sup> ERA, Inquiry into Microeconomic Reform in Western Australia: Final Report in 2014, page 269.

<sup>3</sup> 2016-17 State Budget, Budget Paper No. 1, page 5.

<sup>4</sup> ERA, Inquiry into Microeconomic Reform in Western Australia: Final Report in 2014, page 269.

<sup>5</sup> Source: [https://www.finance.wa.gov.au/cms/State\\_Revenue/Land\\_Tax/What\\_is\\_Land\\_Tax.aspx](https://www.finance.wa.gov.au/cms/State_Revenue/Land_Tax/What_is_Land_Tax.aspx)

<sup>6</sup> Three year average of the forward estimates projections by WA Treasury.