LEGISLATIVE ASSEMBLY FOR THE AUSTRALIAN CAPITAL TERRITORY

STANDING COMMITTEE ON PUBLIC ACCOUNTS

(Reference: Inquiry into the methodology for determining rates and land tax for strata residences)

Members:

MRS V DUNNE (Chair)
MR M PETTERSSON (Deputy Chair)
MS B CODY
MR A COE

TRANSCRIPT OF EVIDENCE

CANBERRA

WEDNESDAY, 13 JUNE 2018

Secretary to the committee:
Dr B Lloyd (Ph: 620 50137)

By authority of the Legislative Assembly for the Australian Capital Territory

Submissions, answers to questions on notice and other documents, including requests for clarification of the transcript of evidence, relevant to this inquiry that have been authorised for publication by the committee may be obtained from the Legislative Assembly website.

WITNESSES

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Amended 20 May 2013

The committee met at 9.22 am.

BARON, MR PHILLIP

THE ACTING CHAIR (Mr Pettersson): Good morning and welcome to the first hearing of the Standing Committee on Public Accounts inquiry into the methodology for determining rates and land taxes for strata residences. Today the committee will be hearing from four witnesses: Mr Phillip Baron, Mr Peter and Mrs Carol Dunnet, Mr Alexander Popov and Mr Ted Quinlan.

Today's proceedings are being recorded and will be transcribed. Witnesses will receive a proof transcript for comment. The committee is not asking for opening statements. Due to time constraints, today the committee would prefer to go straight to questions. The committee will now hear from Mr Phillip Baron. Good morning, Mr Baron. Have you read and understood the privilege statement on the table in front of you?

Mr Baron: Yes, I have, and I realise that proceedings are being recorded.

THE ACTING CHAIR: I will lead off with the questioning. In your submission you mention that apartment buildings create cost savings and economies of scale for the government. Given that the vast majority of the ACT government's expenditure is on things like health and education, what are these major savings?

Mr Baron: I question the health and education because that is actually funded largely by way of commonwealth grants—that is, by part of your tax. In respect of the other thing, the economy of scale, as I have pointed out in my document, as a unit plan we actually pay for our internal streets. That is part of the sinking fund. We pay for our lighting. In fact, we had to have the lighting installed because there was no lighting in our apartment complex originally.

MS CODY: External lighting?

Mr Baron: Outside the units, yes. It was very dark and dingy and unsafe; so we had street lighting installed within the units at considerable expense. I have also questioned the ratio of recycling to landfill in our units. Our recycling is something in the order of one-quarter of the detached housing recycling rate.

We have a very large landfill bin that is emptied twice a week. We have a recycling bin that is about quarter the size that is recycled about once a week. That is quite different from what you get in a detached house. It is often overflowing. We have asked about increasing it. Of course, we would be charged I think an extra $1,500 per additional bin if we had two extra bins for our complex, which has two big wheelie trolley things at the moment. So that is another thing.

I have not changed my view from what I wrote. Basically, I feel that we in unit plans actually provide the government with some cost savings due to the basic fact that the government only has to maintain the outer part of the street. We do all the internal streets and we have a reduction in our recycling rate compared to detached houses.

MR COE: Mr Baron, thanks for your submission. The first point in your summary relates to fairness. In that vein, in terms of the arrangement that you were on with the previous rates regime, why, in a nutshell, do you think that was a fairer system than the new regime?

Mr Baron: In the old regime my block came into the lowest AUV percentage, which is currently 0.2960. My block now comes in at 0.6013. I would think every unit in every unit plan, whether or not it is multistorey, would be in 0.6. As I have said in my submission, our block is valued at $5,351,000, which means that this thing here is basically irrelevant. Everybody is straight up on to 0.6.

In the future, if some bright spark comes along and thinks, “Well, all these people on 0.6 must be living in penthouses. We will just crank that one up higher than for the poor people with lower block values,” that would make it even worse. Everyone from a one-bedroom bedsitter up is now on 0.6. I do not think that is fair. It is just not fair.

MR COE: Do you think the government has actively encouraged people to move into units?

Mr Baron: Yes, I would say so. There are some incentive schemes, I think, for people to actually sell their larger houses in leafy suburbs and to put the residual into superannuation, for example. There are schemes that encourage that. Some of that is federal encouragement too, I guess, but I would say that across all levels of government people are being encouraged to downsize as they get older.

MS CODY: Is that why you moved?

Mr Baron: Yes, that is exactly why I moved.

MS CODY: Because the government encourages you or because you felt—

Mr Baron: No, not at all. It was my financial decision to do so.

MS CODY: It was your financial decision?

Mr Baron: Yes.

MR COE: In terms of the impact on your disposable income, what is that?

Mr Baron: Personally, it is not huge because I happen to be a reasonably well-off self-funded retiree. But there are quite a few pensioners in our complex who it will impact. A 30 per cent increase for them is quite a frightening impact on a pensioner who is on minimal money, basically.

MR COE: Do you think that there is a prevailing view amongst the other 45 or so owners in your complex that the changes are not fair?

Mr Baron: Yes. We have discussed it as a body corporate committee and also we have had feedback from our local residents that they are not particularly happy with it at all. They feel it is unfair, basically.

MR COE: What proportion of your complex would be owner occupied?

Mr Baron: I think we currently have about 12 that are rented out; so they are mostly live-in owners.

MR COE: Personally, do you have any communication with the owners of those 12 units that are rented out?

Mr Baron: No, not so much with the 12; not to a great extent, no. There is a fair turnover.

MR COE: The reason I ask is to ascertain whether they are likely to see an increase in their rent as a result of—

Mr Baron: No, I have not personally discussed their rental situation.

MS CODY: You keep saying that you have had a 30 per cent increase in your rates. What is the actual dollar figure for that?

Mr Baron: It is on the back of my submission, I think.

MS CODY: You have broken it down quite substantially. I wanted to know what the dollar figure was in total terms, not broken down into all the additionals. I want to know what your total dollar rates increase has been.

Mr Baron: It is about $410, I think.

MS CODY: Over a year, over two years or—

Mr Baron: Over a year.

MS CODY: Over a year?

Mr Baron: Yes. That is 2016-17 versus 2017-18. It went up by 30 per cent, basically.

MS CODY: Yes, the total dollar figure—

Mr Baron: Which was $400-odd.

MS CODY: Thank you.

Mr Baron: As I said, that is not particularly significant for me, but for a pensioner that would be significant.

MS CODY: For lots of people that could be significant.

Mr Baron: That is right; not necessarily just pensioners.

MS CODY: So what is the AUV of your unit?

Mr Baron: The AUV for my unit?

MS CODY: Yes, the AUV of your unit.

Mr Baron: My current valuation-based charge is $690, which is double what it was last year. The AUV has more than doubled. It is a 113 per cent increase, which is pretty interesting.

MS CODY: You were talking about market property value as well. You suggested that the block that your units sit on is worth $5 million.

Mr Baron: Yes.

MS CODY: Is that an increase in market value since you purchased the property?

Mr Baron: I am sure it has.

MS CODY: Do you know how much it has increased by?

Mr Baron: No, I do not exactly.

MS CODY: So there might be a 30 per cent increase in the value of your property over that period too?

Mr Baron: Not my property, per se, no. There might have been—

MS CODY: How much has your personal property increased by, your unit?

Mr Baron: What, since I bought it?

MS CODY: Yes.

Mr Baron: I paid, I think, $315,000 for it. I do not know what it would be valued at now, but it would be somewhere in the order of 500 to 550.

MS CODY: So there is a significant increase in the property value of your unit.

Mr Baron: Yes, and I have put probably $200,000 into renovating it, too.

MS CODY: Sorry?

Mr Baron: I have probably put about $200,000 worth of renovations into it, too.

MS CODY: That is a lot of renovations for a unit.

Mr Baron: It is.

MS CODY: It must be quite a big unit.

Mr Baron: I will explain one of the renovations. One of the renovations was the bathrooms, which cost me $40,000. Those bathrooms were not sealed properly by the builder. That is another thing that other unit plan people have brought up. People have a lot of issues with the inspections.

MS CODY: Yes, there is actually an inquiry going on in another Assembly committee. You should put in a submission to that—

Mr Baron: Yes.

MS CODY: because those issues are exactly what they are looking at. That is a very good point you raise. It would be probably very well heard in another committee hearing.

Mr Baron: Yes.

MR COE: But importantly I see that there has not been, according to your submission, a change in the AUV for the complex in the two years in question. Despite the fact that there was not a change in the AUV, if I am not mistaken, you are still getting that significant increase?

Mr Baron: That is right. I do not think it would have changed in two years significantly, given that unit values are about the same as what they were in 2008 as far as the market indicators are concerned. They have not gone up significantly in almost 10 years. And I think that is largely due to the very high number of apartments that—

MS CODY: They have not gone up in the last 10 years, did you just say?

Mr Baron: The market suggests that the price of a unit, particularly a high-rise unit, has not changed since 2008, they are static, and that is largely due to the huge number of high rises that have gone up in the ACT in the last 10 years, I would imagine. That was just in the news and various financial reports I have read. They may have gone up some, but not significantly.

MS CODY: I would be surprised if they have gone up none at all. That would surprise me quite dramatically. I have many friends that own units and townhouses and I know that they have definitely gone up substantially. My parents have actually upsized. They have gone from a townhouse to a big four-bedroom house on an acre property in their retirement, and I know they were able to do that because the price of their townhouse had increased so dramatically over the last 10 years.

Mr Baron: It depends on where they are.

MS CODY: They are in Tuggeranong.

Mr Baron: The high-rise ones probably have not gone up.

MS CODY: That is in Tuggeranong.

Mr Baron: You can lose on apartments, too. I lost in New Zealand, on an apartment.

MS CODY: You can lose on houses, I would imagine.

THE ACTING CHAIR: I understand that you are frustrated with these changes?

Mr Baron: Yes.

THE ACTING CHAIR: Do you think we should transition back to stamp duty?

Mr Baron: No. I was quite comfortable with the idea of removing stamp duty eventually. We have already done 10 years worth. I suppose we have got another 10 years approximately—about 2030 or something like that.

THE ACTING CHAIR: So the problem is not getting rid of stamp duty and transitioning to rates?

Mr Baron: No.

THE ACTING CHAIR: The problem is how the tax take is being allocated across landowners?

Mr Baron: Yes, that is right.

THE ACTING CHAIR: As a unit holder, you should not pay more; it is people that own houses that should pay more?

Mr Baron: It comes down to the size of the block of land, really. A detached house has a much larger block of land under it, and there are a lot more options to, I guess, make capital gains from a larger block of land. For example, if they are in the right RZ zone they can subdivide it and presumably have it split into two townhouses and that sort of thing. I cannot do that.

THE ACTING CHAIR: So we need to find the right unit holders to increase rates on? That is what you are saying? Not your specific type of unit, a different type is who rates should rise on?

Mr Baron: No. I am just saying that the percentage increase that is put across the board should be across the board, not a higher increase for unit holders than what it is for detached housing holders. I do not think ours should be less than detached. I just object to this sudden, complete change of formula which is basically a retrospective change. It is the same thing if you make retrospective changes to superannuation and so on. People plan their lives around a certain set of formulae and then the goalposts are shifted.

THE ACTING CHAIR: So we should go back to stamp duty?

Mr Baron: No.

THE ACTING CHAIR: So you want to keep these moved goalposts?

Mr Baron: No. As I said in my submission, the problem I have with it is this formula where all units are pushed into the highest rating value, or rating thing of 0.6. There is no increment now. We are all in that 0.6.

THE ACTING CHAIR: Delving into that, it is not necessarily about the dollar figure you pay, it is about the formula, and you want to see a more progressive taxation formula?

Mr Baron: Yes.

MR COE: The main thing you are saying is that in the system almost the first dollar of your valuation is at the highest ratings factor as opposed to everybody else that gets the benefit of the first $600,000 or thereabouts being at a considerably lower rate—about half, in fact?

Mr Baron: Yes, that is right. Someone in a detached house would be on a modest 300 or 400-square metre block and would be on maybe 0.4, whereas my little 150 or 250-square metre block that is under my apartment or unit is at 0.6. So what I have said in my conclusion is that you need to take the formula back to what it was.

MS CODY: Which means you would be paying less rates than houses?

Mr Baron: I would be paying more rates than what I was paying last year. I would have an increase of six or seven per cent, the same as a detached house had last year.

MS CODY: Some houses have more—

Mr Baron: Which is much higher than inflation. Inflation is only two per cent. You are still cranking the rates by six or seven per cent even for detached houses.

THE ACTING CHAIR: Thank you for appearing before the committee this morning. The secretary will send you a copy of the proof transcript for your comment.

DUNNET, MR PETER
DUNNET, MRS CAROL

THE ACTING CHAIR: Good morning. Thank you for being here today. Mr and Mrs Dunnet, have you read and understood the privilege statement on the table in front you?

Mr Dunnet: Yes.

Mrs Dunnet: Yes.

THE ACTING CHAIR: We are running short on time so if there are no opening statements we will jump straight into questions. I read your submission. You said that the current changes to rates in the ACT may be illegal. Can you expand on that for me?

Mr Dunnet: Yes, I could. I will have a go at it. I think it would simply come down to a group of educated accountants familiar with the law in relation to tax rates and other charges made on public housing to determine whether the current new method on which the charges have been calculated represents a fair and equitable method. It is not a matter of whether two plus two equals four or five. It really comes down to whether it is a fair, just and equitable way of distributing taxes, charges, against the people of Canberra.

THE ACTING CHAIR: Is it about fairness or is it about illegality? We can have a conversation about fairness but it is a pretty bold thing you have said about it being illegal. I just want to see if you have any more detail on why it would be illegal.

Mr Dunnet: I would just leave it at that. Certainly, fairness is a good word to use and whether a court or High Court determined it was illegal would be up to them.

MR COE: The last paragraph of your submission speaks of an extra $90 per week being required to cover the increases. What portion of that do you think would be recoverable from tenants?

Mr Dunnet: I will let my wife have her say on this. Since we wrote this, we have noticed that landlords are attempting to increase the rents on their properties. We have done this successfully. We have been able to increase it—$10 on a $400 property. Whatever percentage that is, that is the amount. It will not be a net return. That is the amount we feel that the market at the moment is able to cope with, otherwise you lose your tenant.

MR COE: In terms of the current lay of the land—the current methodology and all other factors—do you think it stacks up to invest in units in Canberra right now?

Mr Dunnet: I can comment on that. Having been property investors for nearly 20 years, we have learnt what to look at to determine whether a property is a viable investment property. I would not be buying any more property in the ACT. I could show somebody in five minutes how to determine whether a property was worthwhile looking at further, from a simple before-tax calculation.

MS CODY: This is an investment property you are talking about?

Mr Dunnet: Yes. If I was going to buy a unit, a house or a townhouse in the ACT now, I reckon I could show you that it is a no-brainer.

MS CODY: Do you claim tax deductions for the cost of running your properties at the moment?

Mrs Dunnet: Yes, we do.

MS CODY: What does that equate to across the difference between the rate increases and the tax deductible amounts?

Mrs Dunnet: We have not done this year's tax yet so we do not really know, but obviously it is going to be—

Mr Dunnet: We fall into a net taxable income bracket of about $50,000. It used to be about $60,000. We're now getting down to $50,000. If you split that both ways, we are in a position individually where we are basically below the threshold and any further charges we incur simply come off our net income. We drift from $60,000 to $50,000.

MR COE: Yes, so in effect it is not like you are paying 50 cents in the dollar in tax. Your actual rate is more like five or 10 cents in the dollar. Therefore each deduction is relatively minor. Is that, in effect, what you are saying?

Mrs Dunnet: Yes.

MR COE: Your effective marginal tax rate is low because you are near to where the tax-free threshold is.

Mr Dunnet: Yes. Five years ago we were in a higher bracket. We might have been at $70,000 or $80,000 as a net combined income. We do not know whether it is because there are more properties available for rent. I have my Excel spreadsheet, which I do not think you have. Just on the one property at Manuka Park—these are from our tax return results; they are extracted figures—in the 2013-14 tax year our net income on this one-bedroom unit was $16,346.

MS CODY: That is your net income?

Mrs Dunnet: Yes. This is projected but we are nearly there: in the 2017-18 tax year it will be $13,335, a decrease of $3,011. Our rates and land tax, between 2013-14 and 2017-18, will have gone up $2,765. That is a break-up of $863 in rates and $1,902 in land tax. I just want to demonstrate. I know that we are responsible for whatever property we buy. We have to wear the fact if people do not come and rent in Manuka, which is about the best place to have a unit. Lots of parliamentarians stay there. This simply shows that we have suffered a loss of $3,000 in rent and paid $2,765 in rates and land tax. So there is a net differential of $5,700 to $5,800 just on the one property. That is why we have drifted downhill.

MS CODY: You said that you have increased your rent from $400 to $410. I am assuming that is per week.

Mrs Dunnet: Yes.

MS CODY: Is that across all of your properties or just one?

Mrs Dunnet: One.

MS CODY: Is that the Manuka property, or is that—

Mrs Dunnet: No, Phillip.

MS CODY: That is the Phillip property?

Mrs Dunnet: The Phillip property is stand-alone. It is a townhouse and we do it. But the other two are serviced apartments. That is the difference. You cannot put the rate up.

MS CODY: So that is a determined rate that is done as part of—

Mrs Dunnet: The management, yes.

MS CODY: That is interesting.

Mrs Dunnet: They are a terrific investment.

Mr Dunnet: They would be trying to increase the daily rate at the Manuka Park serviced apartments. But they will only be able to do that in consideration of what other similar serviced apartments in the area are charging.

MS CODY: You said a moment ago that your income was about $60,000 and that it has dropped to about $50,000; is that correct?

Mrs Dunnet: Yes.

MS CODY: Is that all from the rents that you receive from your investment properties, or do you have additional investments?

Mrs Dunnet: A little bit of that is bank interest, but that is so low.

MS CODY: I know you did mention that you were self-funded retirees. You do not have superannuation at all? It is just all rents from the properties that you currently rent out?

Mrs Dunnet: Yes.

Mr Dunnet: Yes, that is it.

MS CODY: Thank you. I would just like to understand it all.

Mrs Dunnet: Fair enough.

THE ACTING CHAIR: Do you think stamp duty is a good tax?

Mrs Dunnet: We have paid six lots of stamp duty. No-one thinks any tax is good, do they? We feel that for us we have paid our stamp duty and now we are copping it with especially the land tax.

THE ACTING CHAIR: We are in the middle of a big tax reform process.

Mrs Dunnet: Yes.

THE ACTING CHAIR: Should we transition back to stamp duty?

Mrs Dunnet: I think we should make it more equitable. We should probably reduce the stamp duty to something that is affordable and maybe reduce the land tax, just to make it fairer for everyone.

THE ACTING CHAIR: How are we going to reduce stamp duty and also reduce land tax?

Mrs Dunnet: Well, you have put the land tax up, haven't you? If we reduce that by a bit and reduce the stamp duty by a bit, make it—

THE ACTING CHAIR: So increase the stamp duty?

Mr Dunnet: No.

Mrs Dunnet: No, you would not have to, would you?

THE ACTING CHAIR: If we are decreasing the amount that we get in rates, we are going to have to increase how much we get in stamp duty.

Mrs Dunnet: I am just saying: make them both fairer. Make the stamp duty a bit less and make it fairer for first homebuyers.

Mr Dunnet: It just depends how much you want.

Mrs Dunnet: Not put the land tax and the rates up so much, just reduce it a bit.

THE ACTING CHAIR: I am just trying to figure out where you sit on this.

Mr Dunnet: I understand where you are coming from.

MS CODY: I am glad someone does.

Mr Dunnet: I think it is reasonable to reduce stamp duty to some degree so that we fall in line with the other states better. I cannot quote, because I am not 100 per cent sure, but we did have properties in Queensland and stamp duties. It is worked out a different way there. You only, I think, pay it when you sell it or something like that. I think we could have another look at stamp duty. I do not think it needs to go down to nothing. If you buy a property, because of the historical nature of what we have had with stamp duty, I think we should still have it.

MS CODY: So you do think that we need to go back to having stamp duty?

Mr Dunnet: Yes.

MS CODY: Okay.

Mrs Dunnet: But reduced.

Mr Dunnet: But have a look to see how it fits with other states.

MS CODY: At the moment we are the second lowest jurisdiction in Australia for stamp duty. Queensland is the only one that is lower.

Mrs Dunnet: But Queensland does not have land tax.

MS CODY: I do not know.

Mrs Dunnet: And in New South Wales—I meant to look it up before I came—you only pay land tax when the property is worth a certain amount, over $500,000 or something like that, I think it is.

MS CODY: I think most properties, particularly in Sydney, would be worth much more than that these days.

Mrs Dunnet: Yes, that is right. But for little units—

Mr Dunnet: Anyway, going back to your question, I think we should still have land tax.

Mrs Dunnet: And stamp duty?

MS CODY: And stamp duty.

THE ACTING CHAIR: And stamp duty.

Mr Dunnet: Oh, sorry. Whoa there. I think we should still have stamp duty. Land tax is a real—I humbly suggest that we are making ACT a non-investment opportunity. You might get the Chinese buying on that. I can show in five minutes that it is a no goer. Carol and myself, because—

THE ACTING CHAIR: If you wanted to sell your apartments and your townhouse, do you think there would be people who wanted to buy them?

Mrs Dunnet: Probably only first homebuyers, people trying to get into the market. It would not be an investor; an investor would not touch it.

THE ACTING CHAIR: A first homebuyer would be very interested.

Mrs Dunnet: Yes, probably.

MR COE: Do you think you have had a capital gain, especially in the last few years, on these properties?

Mrs Dunnet: Yes.

Mr Dunnet: The last few years?

Mrs Dunnet: Yes.

Mr Dunnet: There would be capital gain, but it would not be as much as it has been in the past. From, say, 2000 to 2010 properties went up. If we had bought a property three years ago, the capital gain would be almost zilch.

MS CODY: When did you buy your first investment property?

Mrs Dunnet: We were trying to look that up before we came.

MS CODY: A guesstimate.

Mr Dunnet: It was 1999 or 2000.

Mrs Dunnet: Yes. But then we bought one not so long ago, didn’t we?

Mr Dunnet: Yes. We sold one in Brisbane and bought one here, because Manuka Park is very well run. A unit came up there, and I had worked out that the swap was a good idea. Well, it was at that stage.

I just want to address that we could sell a townhouse in Phillip, but I believe we would have difficulty marketing our Manuka Park properties, because only serious investors look at that.

MS CODY: Is that because they are serviced apartments?

Mrs Dunnet: Yes.

Mr Dunnet: Yes. Banks do not like serviced apartments, for some strange reason.

MS CODY: All right. There you go.

Mr Dunnet: These ones have proved to be very good in the past, but now they are not good; they are quite marginal.

Mrs Dunnet: Because of the fees.

THE ACTING CHAIR: I would like to thank you both for coming in today and appearing before us. The secretary will send you a copy of the proof transcript for comment.

Hearing suspended from 9.59 to 10.11 am.

POPOV, MR ALEXANDER

THE ACTING CHAIR: The committee will now hear from Mr Alex Popov. Have you read and understood the privilege statement on the table in front of you?

Mr Popov: Yes, I have.

THE ACTING CHAIR: I will jump in straightaway with some questions. Reading through your submission, you talk about the tax reform process not having a mandate. Can you expand on what you mean by that?

Mr Popov: In the information that I have read on the website, I have not seen any indication that the impacts on tenants and renters have been assessed. I could not find this information. Maybe it does exist but certainly I could not find it, and I read what there is available on the website. So from my point of view this information was not available. Obviously, there is more information which is available on the website but only the positive impact of this tax reform is discussed, which is fine, but in my view it was not comprehensive in that some other aspects have not been communicated properly to the public.

THE ACTING CHAIR: What do you mean by other aspects? You have been informed that there was going to be a tax reform process but there were details that you did not have that you wanted?

Mr Popov: Yes. I think the land tax does have an impact on tenants and investors, and I have not found any assessment or analysis which was done as a result of modelling of this reform. It has not been communicated on the website whether tenants would be better off or worse off as a result of this reform, whether investors would be better off or worse off as a result of this reform.

There was indeed some assessment in terms of first homebuyers. They said, “Okay, first homebuyers obviously benefit.” That is fair enough. Another group might have benefited out of this reform as well. But how about the rest of the community? It is not just the first homebuyers. I wish everyone could buy a home when they turn 18, when they leave school, but people end up renting. What happens to this group of people?

THE ACTING CHAIR: Do you think that, as part of a tax reform process, getting rid of stamp duty is a good idea?

Mr Popov: Nobody likes tax. Stamp duty is a form of tax as well. But I guess there is a lot of talk about why stamp duty is a bad one. I think stamp duty obviously is not something that everyone enjoys but it has been around for quite a long time in many jurisdictions and that is why, from the conservative point of view, if something sustains the test of time you have to be very careful to move away from it completely.

One of the positive things about it is that it has a very broad base. It is something which is positive, in a way. It applies to all properties, and the land tax only impacts the properties which are rented out, which basically means the base for that tax has shifted. If you are talking about the neutral tax impact reform—what the government says on their website is that the tax mix changes without a change to the overall tax take—what does change is the tax base. We are shifting the tax burden from the wider community to the smaller community, investors and renters. They are affected more than others. That is why I think from that point of view land tax has a disadvantage over stamp duty.

THE ACTING CHAIR: I just want to jump in briefly on a point. I am not sure what you mean by the burden for a unit holder being greater than for household owners, in that unit holders pay lower rates than a household would.

Mr Popov: My understanding is that the rates have the same tax base as stamp duty, because everyone who would buy a property would pay stamp duty except for the exceptions like first homebuyers, which has recently been announced. But the land tax only applies to properties which are rented out. The base, the number of people who are paying that tax, is smaller than the amount of people who would have paid the stamp duty. That is what I mean.

THE ACTING CHAIR: I do not want to take up too much time but I have one quick question on the main line of questioning. I understand you are unhappy about these changes. Should we shift back towards stamp duty?

Mr Popov: I am not an economist to determine the direction. I am just saying that obviously the problem is apparent. The burden of the new tax regime is unfairly skewed towards a smaller population. And that is why this problem needs to be resolved—whether the tax base needs to be equalised for the land tax or you come back to the previous model where there was a stamp duty, which was by default having pretty much a very broad tax base.

MS CODY: How many investment properties do you have?

Mr Popov: I am a new investor. I have been in the investment business for about three years, and I have four properties.

MS CODY: All in Canberra?

Mr Popov: Yes, in the ACT.

MR COE: One of the points that you make is obviously that your effective marginal rate is now pretty much that top threshold, as opposed to an average of all the thresholds beforehand, because of the way that the calculation is now done. Because you are, in effect, now in this top rating threshold you are paying considerably more by way of land tax and rates. Are you seeing any additional services as a result of this increase?

Mr Popov: In my experience of having four properties and serving on executive committees—now on the second executive committee—I have not seen any substantial changes, basically, any extra services so far.

MS CODY: Not even across the community as a whole?

Mr Popov: I cannot speak for the community. I am talking about my personal experience as well as what I have heard from people on executive committees of a couple of complexes.

MR COE: So if the cost of owning properties increased and in effect the cost of your business has increased, either you have to increase the rent you charge and increase the price of your product or cop a decrease in your yield. Are you able to increase rents in this market?

Mr Popov: I am. I think my properties are still at or slightly below the average rental figures across similar properties in the ACT. I think I am running a prudent business in terms of how I select properties and how I manage them. But at the end of the day I am not running a charity. If I am having these losses, whether that is mine or some other investors', it would be short term. At the end of the day people cannot really keep claiming the business losses indefinitely. That is not a sustainable model, which means we either have to quit the business or start running a charity pretty much and doing the loss all the time. That is not a sustainable model.

MR COE: As a result of the changes to the ratings calculation methodology, are rents going up?

Mr Popov: Yes, they are. I have brought a number of publications which I could find recently. I can pass these up to this committee. My understanding is that they have been published pretty much in the past three months by the *Canberra Times*. For example, "Canberra rents skyrocket. They are third highest in the country. Canberra is among the worst cities for lower income renters on the rental affordability index."

MR COE: That is from your own personal experience?

Mr Popov: Yes.

MR COE: Because of these changes you are increasing rent?

Mr Popov: Correct.

THE ACTING CHAIR: Are you worse off? If you increase the rent commensurate with how much rates have gone up, are you worse off?

Mr Popov: Do you mean my business? Obviously, it is bad for tenants. It is bad for me, because they are reactive. I cannot increase the rent at the same moment in time when the tax increases, so I have to wear the loss before I actually come along and increase rent. And the increase in the rent cannot cover all the costs within the financial year. For example, I am increasing rents on some of the properties around Christmas time, which basically is in the middle of the financial year. So for the first six months effectively I am running a loss for the business.

MS CODY: What is your net income on your rental properties?

Mr Popov: On the rental properties? I do not have these figures in front of me, but it would be around $80,000 per financial year.

MS CODY: And are all your properties—

Mr Popov: This is gross without—

MS CODY: I was after your net figure.

Mr Popov: Net? I cannot remember the figures, but they would be slightly negative, with all the costs.

MS CODY: I would be interested if you could provide us with that information on notice.

Mr Popov: Do you mean my filings, tax returns?

MS CODY: Just what your net rental is.

Mr Popov: Net rental?

MS CODY: Yes.

Mr Popov: Okay.

MS CODY: It would help us in our deliberations.

Mr Popov: Sure.

MS CODY: Are all of your properties currently tenanted?

Mr Popov: Yes, they are.

MS CODY: Have they been vacant for long periods of time?

Mr Popov: No, they have not been vacant. As I said I am running the business in a way where they are fully occupied. Some of the renters indicated they wanted to leave, but that is life; obviously, renters come and leave. But they have not as yet, so they probably could not find anything better than I have.

MS CODY: You have been talking about some reports. I have seen reports that say that we have the lowest vacancy rates, the second tightest in the country, from my understanding.

Mr Popov: Yes, that is right.

MS CODY: Isn’t that usually a sign that we put our prices up a bit because we can?

Mr Popov: I trust that there should be a balance between all the stakeholders. I do not really like taking advantage of the market over the people. At the end of the day, you deal with tenants, and they are real people with real lives.

MS CODY: Absolutely.

Mr Popov: Which basically means that if I did not have to, I would never increase the rent by as much as I have simply because I responded to this taxation reform. From what I have heard from them, they were not happy with that, but at the end of the day I see that they are not people who can actually go and buy a property or house outright. At the end of the day they are doing it. They can buy a house or they choose to rent; I do not know their personal circumstances. But I believe they have limited choice.

MS CODY: People rent for all sorts of different reasons, don't they?

Mr Popov: Correct, yes.

MS CODY: I have a son at uni and he rents.

Mr Popov: That is right. That is a very good example. You said that your son is renting. If your son rents, that means somebody has to provide this rental property to your son. That means somebody has to pay this land tax, whether that is an investor or whether that is your son. An investor can run the business at a loss for a limited period of time, but then they either quit the business or put up the rent. There is nothing else in between.

MS CODY: Can I quickly clarify something. Earlier you were talking about the changes to land tax. You mentioned that as well. I know that there has been a slight increase in land tax, but haven't investors—not me, because I am not an investor—been paying land tax in the ACT for quite a number of years?

Mr Popov: I have not been here long enough to know the whole history of that. I am aware that the ACT does have land tax. That is the case. But I think the tax reform shifts the burden disproportionately to investors and, I guess, to renters by increasing the land tax excessively. I think that is what the problem is. The balance is obviously changed. It is skewed. From that point of view, that balance has to be restored somehow, and the market will restore it whether we like it or not.

MS CODY: So you are suggesting—you mentioned this a moment ago—that first homebuyers, in this budget that will come into effect soon, will be no longer paying stamp duty if they meet certain conditions.

Mr Popov: Yes.

MS CODY: Do you think that first homebuyers should pay stamp duty?

Mr Popov: I think they already are. On the surface, it might seem that they will not be paying stamp duty, but in reality what happens when you decrease the tax burden is that the prices will come up. So they will effectively pay the same price at the check-out, the time when they have to pay it. If you add the price of the property, and on top of it you effectively add the land tax, then in that case, if you decrease the land tax, my understanding is that the prices of the properties will come up. That is the first point that I want to make. And also—

MS CODY: Sorry, I think I missed what you said. If you decrease land tax, the price of the properties will go up. Is that what you just said?

Mr Popov: No. If you decrease the stamp duty, then the price of the property will come up, because the overall cost of the property will be the sum of the asking price for the property, whatever you have agreed to pay, plus the stamp duty. That basically means that the overall price that you pay at the point when you purchase the property is the sum of the cost of the property plus the stamp duty. If you reduce the stamp duty, the price of the property will increase, simply because people will be able to pay more. Does that make sense to you?

MS CODY: I am understanding what you are saying, but I do not know that it makes sense to me. I would have thought that if there were fewer investors in the market, the prices would moderate.

Mr Popov: Yes. I do not know; I do not have exact figures in terms of the exact number of investors. I do have an article which is coming from one of the investor advisers in Australia. I can quote that if you want, but effectively they are saying that Canberra is not a good place to invest anymore. The reason for that is excessive land tax, which basically means that investors will be investing less in the ACT, in Canberra, for example. As a result, the supply of properties should decrease, which basically will be very consistent with increasing the vacancy rates in the ACT. Then the properties will have to come up in value as well as rents.

MS CODY: If investors are not buying properties in the ACT, who would buy them?

Mr Popov: It is a very good question. The amount of capital, in my understanding, will be less. There will still be people who want to buy properties to live in permanently—houses, for example. But I do not see the overall investment stream increasing if investors walk away from the market.

MS CODY: I have one last question. When did you say you started your investment property?

Mr Popov: In 2015.

MS CODY: So although the rate increases started around then, and the land tax increases, you still chose to buy investment properties in the ACT?

Mr Popov: Yes, I did, but—

MS CODY: Thank you.

MR COE: This inquiry is about the changes to the methodology brought in last year, not about the tax reform of 2012.

MS CODY: It was still a very relevant question.

THE ACTING CHAIR: Do you have a substantive question, Mr Coe?

MR COE: Yes. It goes to the question of supply in the ACT. You mentioned that there will be reduced capital in the ACT. And of course we have competitive federalism here, where people can choose to invest over the border in Queanbeyan. Are you seeing people shift their property investments over to Queanbeyan?

Mr Popov: That is a very good question. If I am to buy an extra investment property, probably I will be looking beyond the border, in New South Wales, at this point. But once again, I cannot talk for other people. As far as I am concerned, ACT is less attractive to me at the moment.

THE ACTING CHAIR: A substantive, Ms Cody?

MS CODY: I notice the time, Mr Pettersson; I am happy to leave it there.

THE ACTING CHAIR: Thank you, Mr Popov, for appearing before the committee this morning. The secretariat will send you a copy of the proof transcript for your comment.

QUINLAN, MR TED

THE ACTING CHAIR: Good morning, Mr Quinlan. As a former member of the Assembly, I assume that you have read and understood the privilege statement in front of you?

Mr Quinlan: I have. Brian also sent me a copy.

THE ACTING CHAIR: We will go straight to questions. In your submission you talk about the randomising variable, that of the number of units on a block. Can you expand on how that, in your opinion, is distorting rates?

Mr Quinlan: Yes. Simply put, what has happened is that rather than an average process that existed before per unit and valuation—the unimproved value being per unit and therefore setting a value on a given unit, and that value being the determinant of the multiplier in the variable portion of the formula—the system has changed so that the gross value of a set of units becomes a determinant of the multiplier.

In fact, depending on the size of the complex—you could have two complexes cheek by jowl. One has very few units in it and one has many units in it. They are otherwise equal in every respect. Those two units will pay different rates by virtue of the way the formula will operate, given that the larger complex will have a gross value much higher. That will lift the indicator, the multiplier, in the variable portion of the rates. Did that make any sense to anybody?

MS CODY: Believe it or not, yes.

THE ACTING CHAIR: Is this a theoretical concern or is this something that is actually playing out on the ground as we speak?

Mr Quinlan: A number of people have come to me. Over recent times my name has been associated with rates. So I have been approached by a number of people who have said, "This is wrong." First of all, they will demand that I explain it. But, secondly, they say, "This is not fair. It is something that should be brought to the attention of the legislature."

I was not really looking to be here today or involving myself in the political issues of the day. But I did commit. I said, "I will write a submission just on that one particular issue that I agree with you is not the most appropriate system to be employed." So I wrote a submission that is one page. It only addresses that issue.

MS CODY: Mr Quinlan, do you have an investment property yourself? Do you live in an apartment yourself?

Mr Quinlan: I do not have an investment property, no; I live in an apartment, yes. My wife and I paid a lot of stamp duty to buy that apartment, let me tell you.

MR COE: It has been abolished.

Mr Quinlan: Nevertheless—

MR COE: It has been abolished, though, has it not?

Mr Quinlan: Pardon?

MR COE: That has been abolished, has it not?

Mr Quinlan: Well, yes.

MR COE: Was the change in the methodology, which is the subject of this inquiry, part of the review that you did—

Mr Quinlan: No.

MR COE: for the ACT government?

Mr Quinlan: No, not mentioned. The only issue that was discussed and debated, and probably not completely resolved, was just the size of the block of land. Should someone pay greater rates automatically if they had a greater area of land that they were occupying? That is an issue that I do not agree with, by the way.

MR COE: Of course, in the old system for determining rates for unit complexes, it was broadly: divide it and calculate. Now it is calculate, then divide. I guess that is the simplest way of putting it. Are you saying that doing the calculations first and pretty much putting everyone into that upper threshold is not fair?

Mr Quinlan: Well, the way it is done now is not fair. It has an element of unfairness in it and there is a practical issue to be addressed. I personally still believe in unimproved value as the base for rating, although it is probably better to use a term like "site value" because pretty well every unit and land is serviced for roads, kerbing, sewage etcetera. So the site value of a block of land, I think, should be the base for rating. That can create an equity.

The government, in the 2016 budget, identified a problem that they saw. I think it is a legitimate problem—the fact that the unit value of land prescribed to units is much lower than to residences. Just on a straight one-to-one basis, unit owners in a very plush unit could be paying a lot less rates than someone just down the road in a pretty standard detached home. So that is a problem.

THE ACTING CHAIR: What circumstances would need to arise for that to occur, in your opinion?

Mr Quinlan: The circumstances already existed. I think, in fact, that when you look at the average unimproved value of land under a given unit, it is a whole lot less than a comparable detached house. That is in the 2016 budget. That issue of the government identifying that maybe we are not getting enough rates from unit owners is what I think precipitated the change to the issue that I have written about.

If you go back and look at the rates that apply to units—in fact, if you look at the unimproved value of units spread over the whole complex versus an individual house—there is a tremendous difference. That might explain, to a large degree, why there are so many unit complexes being built and so few detached houses being built. It is because, in fact, the raw cost—the basic cost of land for housing—is quite substantially different in those two sectors, units as opposed to detached housing. Of course, because we are still using unimproved value, that actually then gives rise to a lower calculation of rates for a unit, as opposed to a detached house.

There are a whole lot of other issues—I have just touched on this in my submission—that say that, on the other hand, unit developments in fact offer economies of scale to the government. At the same time living in a unit complex does impose on the unit owners additional costs of just being in that unit. For the privilege of reducing the cost of city services, they also have to pay corporate fees and all the other things—for example, the legal requirement for sinking fund contributions over the first few years. It is quite an expensive exercise to buy and live in a unit complex. But over the long run, there is a problem to be redressed.

MS CODY: Can I follow up on something you just mentioned. You mentioned that rates pay for municipal services, but also in the ACT do they not pay for hospitals, roads and education? We are a little different in the way our rates do have to cover broad-based services.

Mr Quinlan: I have heard that assertion made. That is, if you like, an arbitrary decision that governments can make as to whether the government should in fact confine rates collection to providing the services that are provided in all other jurisdictions by rates or whether Canberra is so unique that we actually need to derive income out of the rating base for virtually state-level revenue generation, as opposed to municipal-level generation.

We have an overlap, and it has grown over time. Past treasurers can be blamed for that in part, I suppose. Nevertheless it might have been wise back then, in hindsight, to try and isolate rates to city and municipal services and then other revenues to state-level services. We, the ACT, get compensation through GST allocations for our inability to tax at the same rate as other states at HFE.

MR COE: The Commonwealth Grants Commission explicitly makes that ruling, does it not, that the ACT has limited industry? The Commonwealth Grants Commission, from what I gather, has specifically noted historically that the ACT has limited industry and therefore—

Mr Quinlan: The Commonwealth Grants Commission does that for everybody. On average half the states have a less than average capacity to generate revenue, and the bigger states have a more than average capacity to generate revenue. So the Grants Commission's whole raison d'etre is to create equity among citizens in a given jurisdiction as opposed to others.

Western Australia went through the minerals boom. Western Australia derived huge royalties from that and Western Australia went from being, if you like, a mendicant state to a contributing state in the GST wash-up. As soon as that happened, after years and years of deriving income, of course, politics dictates that at state level the state politicians start complaining that Western Australia has been hard done by and was subsidising Canberra and other lazy buggers around the country. That is politics. It is the politics of the GST, of the Grants Commission—a whole other debate which we probably do not really want to visit today.

The application of the Grants Commission methodology does not treat the ACT any differently than it treats anybody else. Obviously, the territory that gets the most on the good side of the ledger is the Northern Territory. Then Tasmania has not been going that well economically; so it is on the receiving side of the Grants Commission.

It is a matter of all the states and territories being judged on the same basis, which is their capacity to generate taxes and revenue—not whether they do or not; their capacity to do so. They can make a choice after that. Take an issue like poker machines. States can decide whether they have a poker machine tax or have poker machines at all or not. But if they do, that is their business and that will affect whether or not they get subsidy through the GST, or partial subsidy.

MR COE: In terms of the changes to the ratings methodology, do you see that in any way as being linked to the abolition of stamp duty?

Mr Quinlan: Yes. The particular issue I brought up, I think, is just a crudity in the system as opposed to the other issue of in fact abolishing stamp duty altogether. The taxation review that I was involved in advocated that. And it followed on from the Ken Henry report, which also advocated the move towards more efficient taxes and against inefficient taxes such as stamp duty. I have heard a lot of people complain about increasing rates as a function of the decrease in stamp duty but I have not heard anybody debate the issue of the abolition of stamp duty in favour of rates in the long term. The principle, I think, everybody agrees with. But obviously it is easy to make politics out of one part, one revenue generation, one taxation being increased more than average.

MR COE: But what you call a crudity, is that not in effect the guts of this change to the methodology? Without that crudity, without that aspect, isn’t there, in effect, no point in having this change to the methodology?

Mr Quinlan: No. This only affects units.

MR COE: And that is exactly what we are looking at.

Mr Quinlan: The guts of what is happening overall—

MR COE: I am talking about the change in methodology of units, which is the narrow terms of this inquiry, the crudity of the randomising variable—that is, in effect, what has brought about the changes in rates?

Mr Quinlan: No.

MR COE: Over all unit owners in the last year?

Mr Quinlan: I cannot agree. In fact, if you read the 2016 budget, the government have realised that they are not generating as much revenue from units as they would like or might, compared to the tax on residences. And that is what they have changed. It has got nothing to do with the replacement of stamp duty by rates.

MR COE: I am not saying it does. But I am talking about the change to the methodology in the last year with regard to apartments and rates. I am not talking about the tax reform. I am talking about this change to the specific methodology that the government has brought in in the last 18 months regarding apartments and landowners.

Mr Quinlan: I cannot speak for the government, and I won't. But I just anticipate that their thinking has been that they want to normalise rating as between units and houses. Regardless of whether you change the rates base, regardless of whether you abolish stamp duty or not, they are just seeking to normalise the process. But they have stuffed it a bit.

MS CODY: Can I go back to your submission for a second. You said in your submission that there is a bit of a "crudity". I think that was the word you just used. How could the government look to improve the methodology? What are some of the things that you might suggest if you were asked? And I am asking you now.

Mr Quinlan: I think it is going to take a bit of work. We talk about rating systems and I think everybody likes to use in the same sentence "fairness" and "simplicity". Unfortunately, those two things can be at odds with each other. So I am going to suggest we come down more on the side of fairness as opposed to simplicity. In the rates inquiry that I chaired, I met a number of young people from the ACT treasury, very bright young people, and I think there is a capacity at least at the middle level in treasury to work through all this stuff. And I would be very surprised and somewhat disappointed if some of this work has not already been done in treasury.

However, I would be looking—off the top of my head and without assistance—first of all to check the principle and the effectiveness of fixed and variable divisions within the rate. That needs to be examined. Secondly, it should not be beyond the wit of mankind to create a nexus between the site value—moving away from the dirt value to the site value—of a detached block and the site value of the apartment in which my wife and I live on the third floor. In fact, even though it is not touching the ground, you should be able to say, "You have that much space in Deakin," where we live, "albeit not actually on the earth's crust and it should be about the same in terms of value for rating purposes as a block of land."

The one caveat that I have also mentioned there is that you have to take into account the additional costs of living in a unit complex versus living in a detached house—in fact, the contribution you make by not demanding as many city services in an apartment block as you do in a detached house. I am sure that the owners' corporation or whatever will be telling you a lot more about that.

MR COE: But how could you take into account the second-level costs?

THE ACTING CHAIR: I am sorry to cut you all off but we have reached the end of our hearing today. Thank you for appearing before the committee this morning. The secretary will send you a copy of the proof transcript for your comment.

Mr Quinlan was the committee's last witness for today's hearing. The committee will hold another hearing for this inquiry on the morning of Wednesday, 4 July 2018. I now close the hearing.

The committee adjourned at 10.52 am.