TAXING DEVELOPER PROFITS

Make developers pay their fair share when land is rezoned

Property developers in NSW have been getting a free ride.

Property developers have made billions in NSW from building new developments but the NSW Government has failed to make them pay their fair share to fund public infrastructure. When land is rezoned for increased density, developer landowners make millions on the gains in land value without paying their fair share for the infrastructure that provides these profits. It's time they did.

For decades, that infrastructure has been paid for by the public, meaning that Liberal-National and Labor governments have allowed a massive transfer of public wealth into private hands. Our current system treats housing and land as speculative commodities instead of places to live, which has driven up housing prices. The profits made by property developers and investors are increasingly forcing housing prices out of reach for most people.

The rights to increased development are granted by our public planning system and supported by public infrastructure funding. The public deserves to get a fair return on our investment and share in these one-off gains. **That's why the Greens will make developers pay their fair share, by introducing a 75% levy on the land value gains due to rezoning.**

THE GREENS WILL:

- Introduce a 75% developer tax on rezoning profits.
- Encourage developers to intensify existing development instead of creating new urban sprawl.
- Discourage developers from engaging in property speculation, since the windfall gains from land rezoning would be properly taxed
- Remove the developer contribution cap of $30,000 per block
- Ensure the money raised is used for local infrastructure

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DEVELOPER TAX ON REZONING PROFITS

Funds raised through a developer tax on rezoning profits will be used to pay for public services and infrastructure where it's needed - in the area that is being redeveloped or rezoned

The tax would apply to any land which is rezoned to a higher use. It would be levied at 75% of the difference between the officially assessed land value before the rezoning compared to the land value afterwards.

The amount of tax due would be assessed at the time the land is rezoned. Landowners would not need to pay the tax until a development application is approved under the new higher zone.

By directly taxing the unearned profits made on rezoned land, the Developer Tax would discourage the parasitic large-scale land banking that drives up prices and rates for everyone and only benefits big property developers.

Who pays and when

The Developer Tax is designed to capture the value gained by big property developers and investors, not everyday homeowners.

Here are two examples of how the tax would work:

Peri-urban: The company Development Ltd owns a block of agricultural land on the outskirts of a city which is valued at $400,000. After the local council rezones the land to low density residential, the same block is worth $1.4million, an improvement of $1 million. After the company's development application is approved by the local council, they would need to pay $750,000, which is 75% of the improvement in land value.

Suburban: Ms Evans owns an old red-brick house on land worth $500,000. When the local council rezones the whole street to medium-density residential, her land is worth $1.2 million, an improvement of $700,000. Ms Evans doesn't have to pay anything, because she isn't redeveloping her land. Years later she moves, selling her house to the company Property Ltd. When Property Ltd's application to develop the land is approved by the local council, they would need to pay $525,000, which is 75% of the improvement in land value.

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The fairest way to tax developers

We've had this policy before, and we know that it works.

In the 1970s NSW had a 30% levy on the value gained when land was rezoned for urban development. It raised a net $15 million that went towards building infrastructure. It was only overturned when politicians bowed to lobbying pressure from developers and wealthy landowners.

The ACT currently has a 75% betterment levy, yielding $183 million per year - on a much smaller tax base.

Modelling shows that a 75% levy could be bringing in $8.2 billion per year in contributions to build the infrastructure that we all need, like hospitals, schools and public transport.[1]

A fairer use of public money

"Betterment" or "uplift" levies are widely considered to be the most efficient way to capture value gained on changing property values. Instead of taxing developer costs, these levies try to capture part of the infrastructure investment that has already been paid for by the government. They ensure that the benefits generated by publicly funded infrastructure are used to benefit the public, instead of being syphoned off as private profit. That way, more money flows into more infrastructure, making more liveable communities.

Fairer planning decisions

Land ownership does not entitle the owner to increased development. But too often in NSW we've seen ad-hoc development with little infrastructure investment and communities left to live with the mess. Land should only be rezoned for increased development based on sound and transparent planning decisions, not lobbying by land speculators.

Greater certainty for developers

Certainty is greatly increased for the development industry by using betterment as a base for raising revenue as it solves the land purchase price dilemma. If planning outcomes are uncertain, the developer who is the most confident of a generous planning outcome will win any bid for the purchase of a development site. They will then require a generous planning outcome to justify the price they paid for the site. With a tax on rezoning, they can pay only slightly above the value at its current use for the site. If they fail to get a generous planning approval then they pay less for the developer tax. If they get a favourable approval, they pay more.

[1] NSW missing out on $8 billion a year from failure to tax land-rezoning, inquiry told (smh.com.au)

Better housing affordability

Principled developers are “price takers” - they'll factor this tax into their profits, reducing their capacity to pay inflated prices for land. This will prevent artificial price rises by land bankers who buy land to bank and sell following rezonings, making obscene profits while providing no value for communities and driving up house prices.

The Rezoning Profits Tax will help make housing more affordable. Unlike current affordability incentives, which just drive up prices, infrastructure contributions charged to developers are factored into the purchase price of each dwelling, and developers can only charge what the market will tolerate.

Removing the Developer Contribution Cap

Currently, local councils provide much of the infrastructure required by new developments, but they can only charge $30,000 per block, regardless of how much this infrastructure costs new and existing rate payers. We'll lift this cap and return infrastructure funding for roads, parks, pools and libraries to local councils, where it can be used to benefit communities

What we'll do with the money

We'll use the money raised by the Rezoning Profits Tax to benefit the communities where it's raised to build vital infrastructure like schools, roads, hospitals, cultural and community spaces and we'll return money to local councils so they can build roads, footpaths, parks, pools and libraries. That way, new and existing residents in rezoned areas will all benefit from more liveable communities.

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