Value Capture and Transport Infrastructure - Public Policy Issues

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Value Capture and Transport Infrastructure – Public Policy Issues

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Value Capture – Issues

1. What drives the profitability of new transport infrastructure?

2. Why is investing in transport infrastructure crucial for growing cities? Who Wins ? Who Loses?

3. What do we mean by Value Capture?

4. Why is land tax the most efficient tax

5. Other value capture taxes

6. History – ancient and modern

- Melbourne rail network in 19th century in part built by private rail companies based on making a profit from the sale of land. These companies failed. But the land they developed(/created) kept land prices low for a long time.
- Melbourne-Sydney-Brisbane Hi-Speed Rail proposal purports to use value capture. Problem is relies on government to give the new cities a population.

The Profitability of Transport Infrastructure

1. Profitability of the new infrastructure (rail line, motorway)
   - Profitability a function of density – number of passengers.
     - NB: higher frequency adds to value to commuters
   - Outside of Tokyo and HK, most public transport heavily subsidised
   - Australia has a high level of subsidy of public transport due to low density – increased density reduces subsidy which is a benefit to all taxpayers in the city.

Minimum densities to support Public Transport - people per hectare of urban use				
For commuter-based lifestyle	Low Bus Service	Intermediate Bus Service	Light Rail	Heavy Rail
30-40	21	31	37	50
Sydney	Melbourne	Brisbane	Perth	Adelaide
27.6	21.1	16.6	17.0	18.0

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Transport Infrastructure and the Value it Adds

1. Transport infrastructure and land values
   - Transport infrastructure is a NET benefit to the residents and businesses in a city
   - Because in aggregate it lowers land values (rents/prices)
   - For specific areas it increases land values – some substantially
   - A land tax will ‘capture’ that variation

2. Case of a New Train Station
   - NSW Government investing heavily in new heavy and light rail lines.
   - In vicinity of new stations value of land rises substantially – it is this windfall profit to landowner that governments seek to ‘capture’
   - Rise in value contingent on density allowed (by local government)

Figure 1: Urban Land Rent and Prices and a Decrease in Commuting Costs

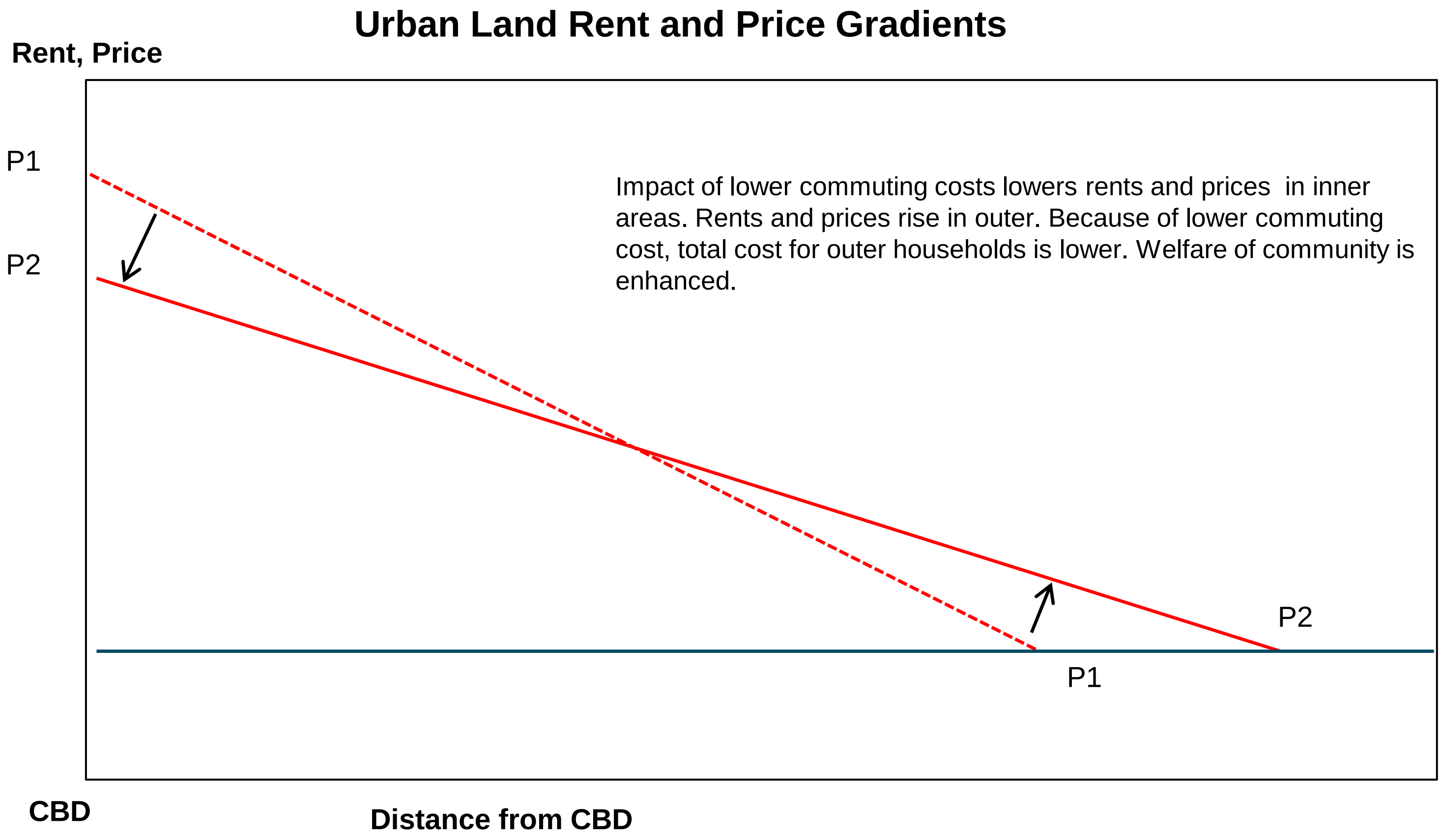

Figure 2: Urban Land Rent and Prices and Growth with Inadequate Investment in Transport

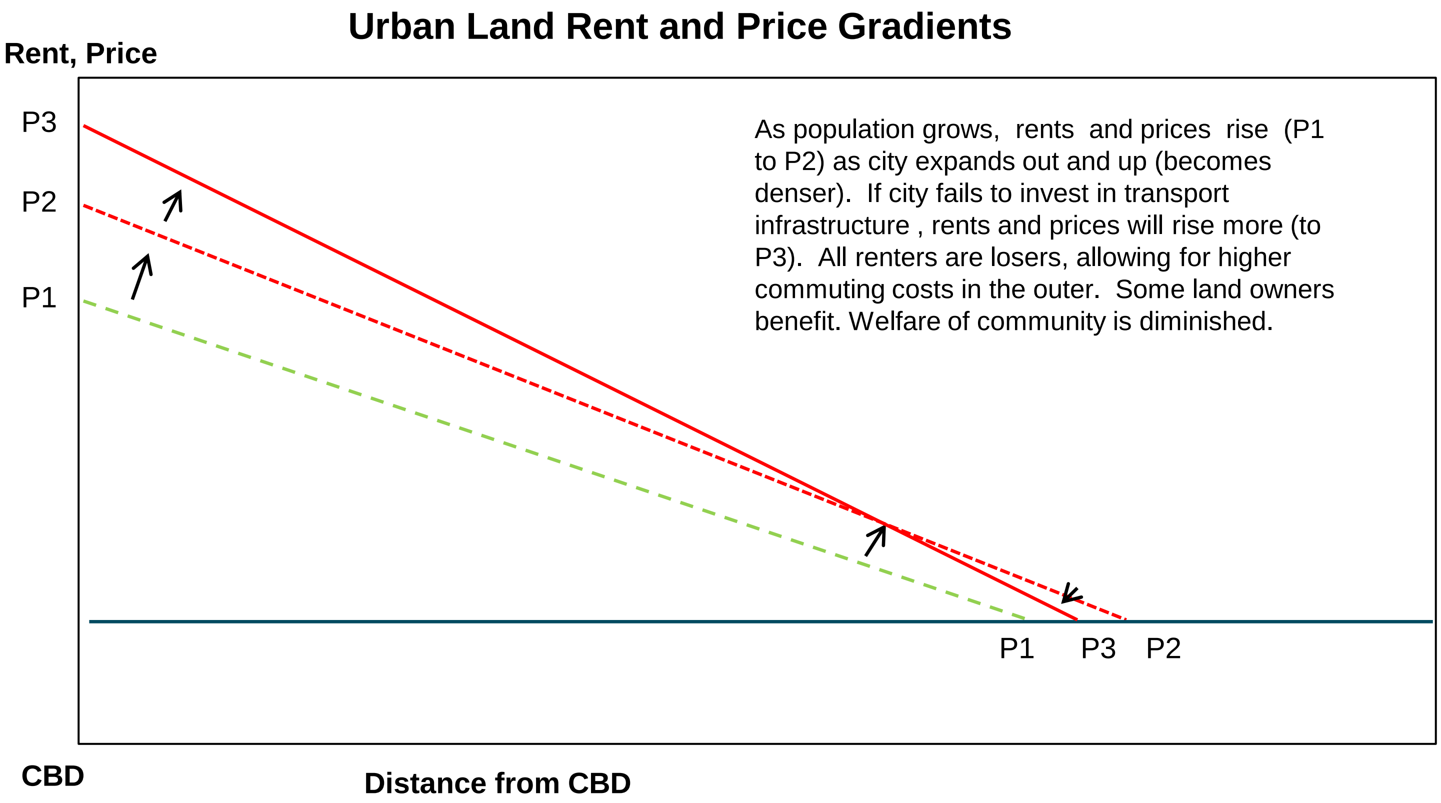

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Figure 3: Change in Land Prices with a New Station

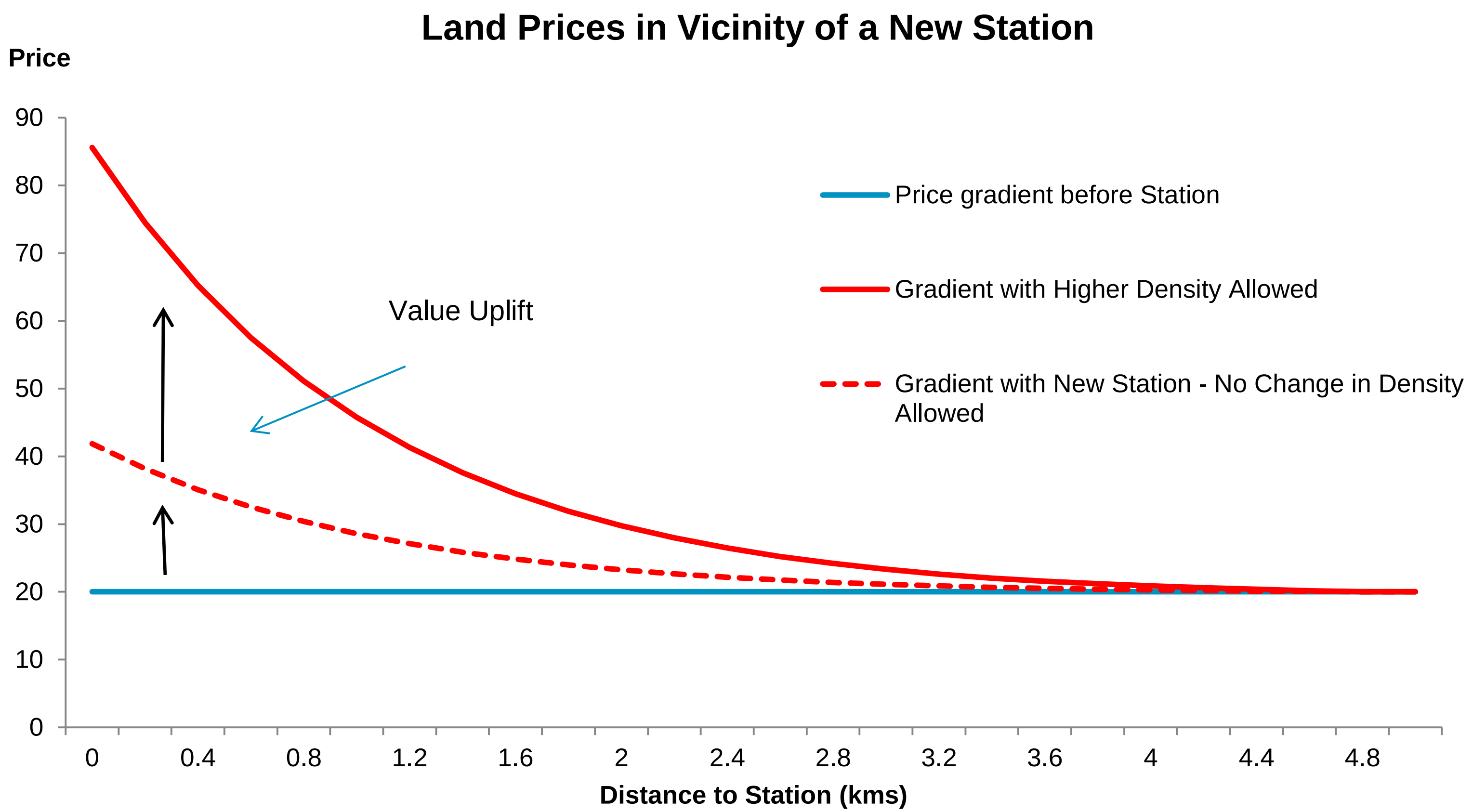
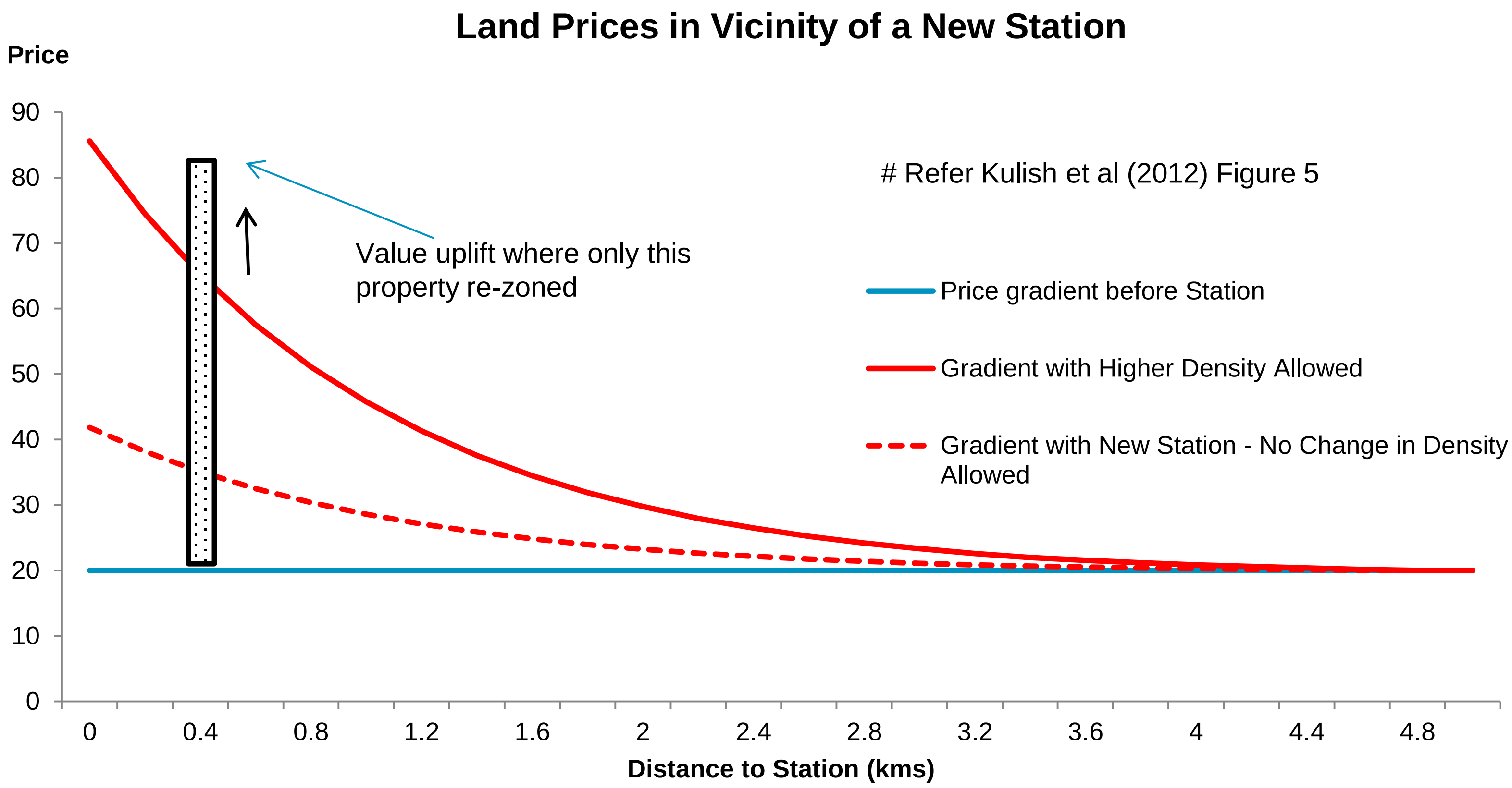


Figure 4: Change in Land Prices with a New Station and Restricted Rezoning#



Value Capture – What do we mean?

1. Value capture – refers to a broad range of user charges linked to, or taxes on, the rise in land value.
    - Seen as a source of funding for transport infrastructure

2. Includes: land tax (incl. local government taxes) , special zone levies (extra land tax or fee), stamp duties, capital gains tax, development fees, betterment taxes.
    - Other than land taxes and special levies, most are transaction taxes

3. Hong Kong Model – government owns all the land. How relevant to Australia where government does not….??

4. Players

- Landowners –
    - IF capital gains tax applies, a portion of gain taxed – exemption of owner-occupiers the issue here.
    - IF land tax applied, a portion of gain taxed – incentive to sell if 'higher value' use taxed

- Governments
- ➢ Local Government –
    - potentially benefits as rates based on land value BUT revenue capped
    - decides rezoning – lack of incentive for density
- ➢ State –
    - Owner of transport –incentive for density
- Developers
    - Intermediaries – transform land to higher use.
    - Development companies as such also own land but most land not owned by developers.

Value Capture – Land Tax

1. Land Tax – tax on value of land "naturally' captures value uplift with new transport infrastructure.
    - Henry Tax Review recommended land tax – principally in context of replacing stamp duty on transactions
    - A more efficient tax.
    - Freebairn (2016) 'Taxation of Housing' AusER vol. 49, no. 3 also supports.

    - UK Crossrail 'hypothecates' a portion of business land tax to new London rail.

2. Current Land Tax – a tiered system which only applies to investor residential and business properties, i.e. exempts owner-occupiers.
    - Henry Tax Review – narrow base makes it inefficient
    - Need to broaden it.
    - A broad-based land tax would lower price of land – narrow base means it adds to rents.

3. Local Government Rates
    - In NSW based on value of land – a form of land tax.
    - Revenue cap means that do not benefit from rise in value
    - Allan (2006) Report on Local Government – need to fix LG incentives = BIG issue

4. State/Local Government.
    - Both 'collect' land taxes –
    - Joint collection – modelled on Alberta, Canada

5. Local Government taxes – some observations
    - As proportion of land value highly variable across LGAs
    - Low in high value LGAs – high in low value LGAs
    - Refer Figures 5-7

Figure 5: NSW Property Taxes

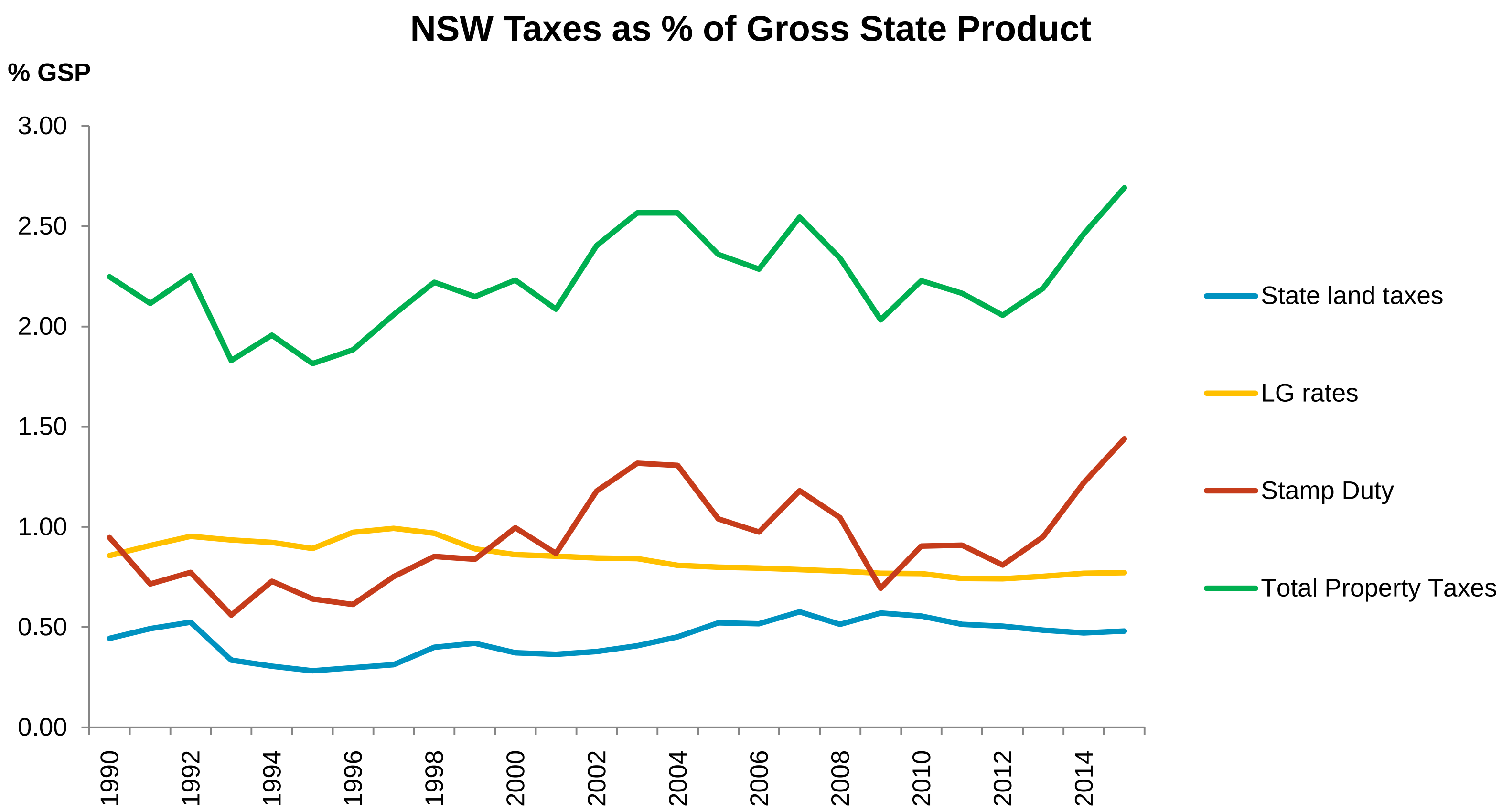


Figure 6: NSW Property Taxes

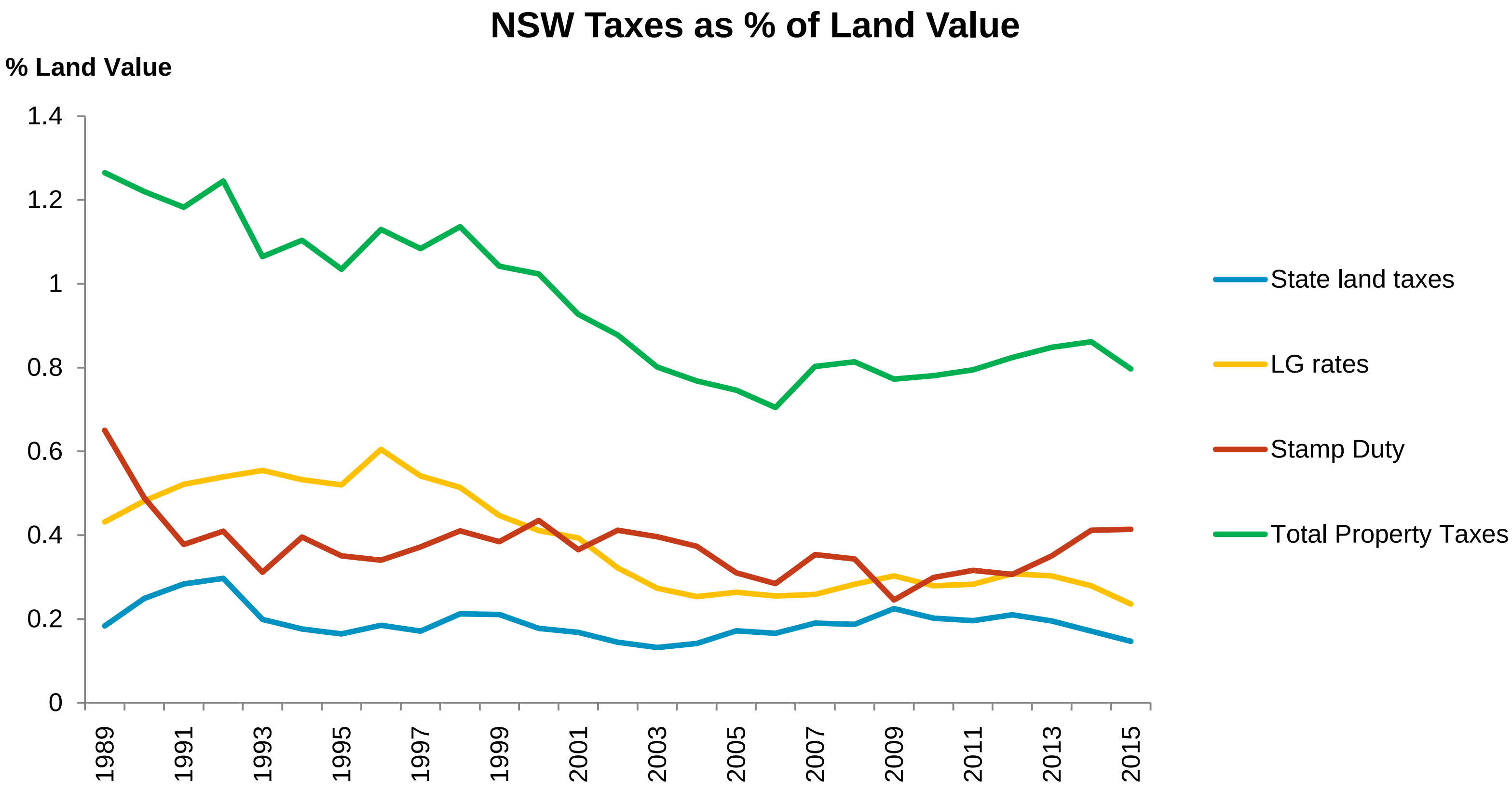
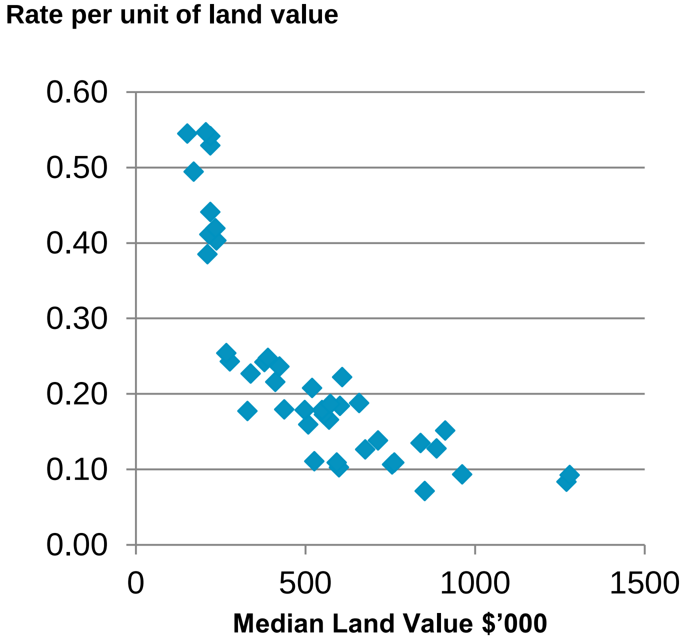
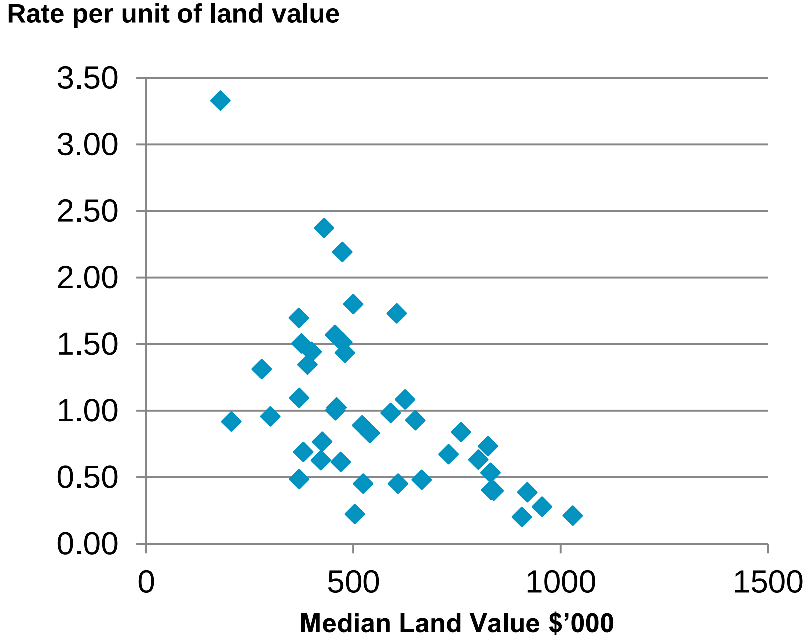


Figure 7: NSW Local Government Rates 2012/13

Sydney LGA Rates applied to Residential Property



Sydney LGA Rates applied to Business Property



Value Capture – Stamp Duty

1. Stamp duty – as tax on transfer of land – based on value of property (land + structure) will capture a proportion of value uplift

    - Like all transaction taxes, a disincentive to transact.
    - Henry Tax Review, almost every one wants it gone.
    - However, in the absence of land tax on owner-occupiers – a second best form of value capture

2. ACT Government IS replacing stamp duty with broader land tax.
    - Unique position as State/LG in one body – fewer political obstacles.

3. History
    - In US and elsewhere, land taxes were more significant in the first half of the 20th century
    - Anti-Land Tax movements emerged in the 1930s….

Value Capture – Development Contributions

1. State Government
    - On greenfield State Infrastructure Contribution (SIC) applies to developers.
    - In the case of Parramatta light rail, an SIC of $200 per m^2 of floorspace (equates to $16-20,000 per dwelling unit) is being mooted – would be a form of density tax

2. Local Government.
    - LG imposes s94 development contributions on developers.
    - Also impose voluntary agreements.
    - Notionally linked to the extra services which new households would require the LG to provide.

3. Henry Tax Report
    - Argued that OK if related to the extra cost which a new development imposed. Otherwise it was a tax.
    - Development tax – to extent passed down to landowners, does not lift costs. But, Henry Tax Review did not fully accept this proposition.
    - At the margin it will restrict development;

4. Development Tax vs Quantitative Restrictions on Development
    - Quantitative restrictions (density controls in inner areas, urban growth boundaries in outer) impose high equivalent “development taxes” on development – larger deadweight losses than with taxes.
    - Relative to these quantitative controls, a development tax would be a better second best option.

Figure 8: Land Value and the Players with a New Station

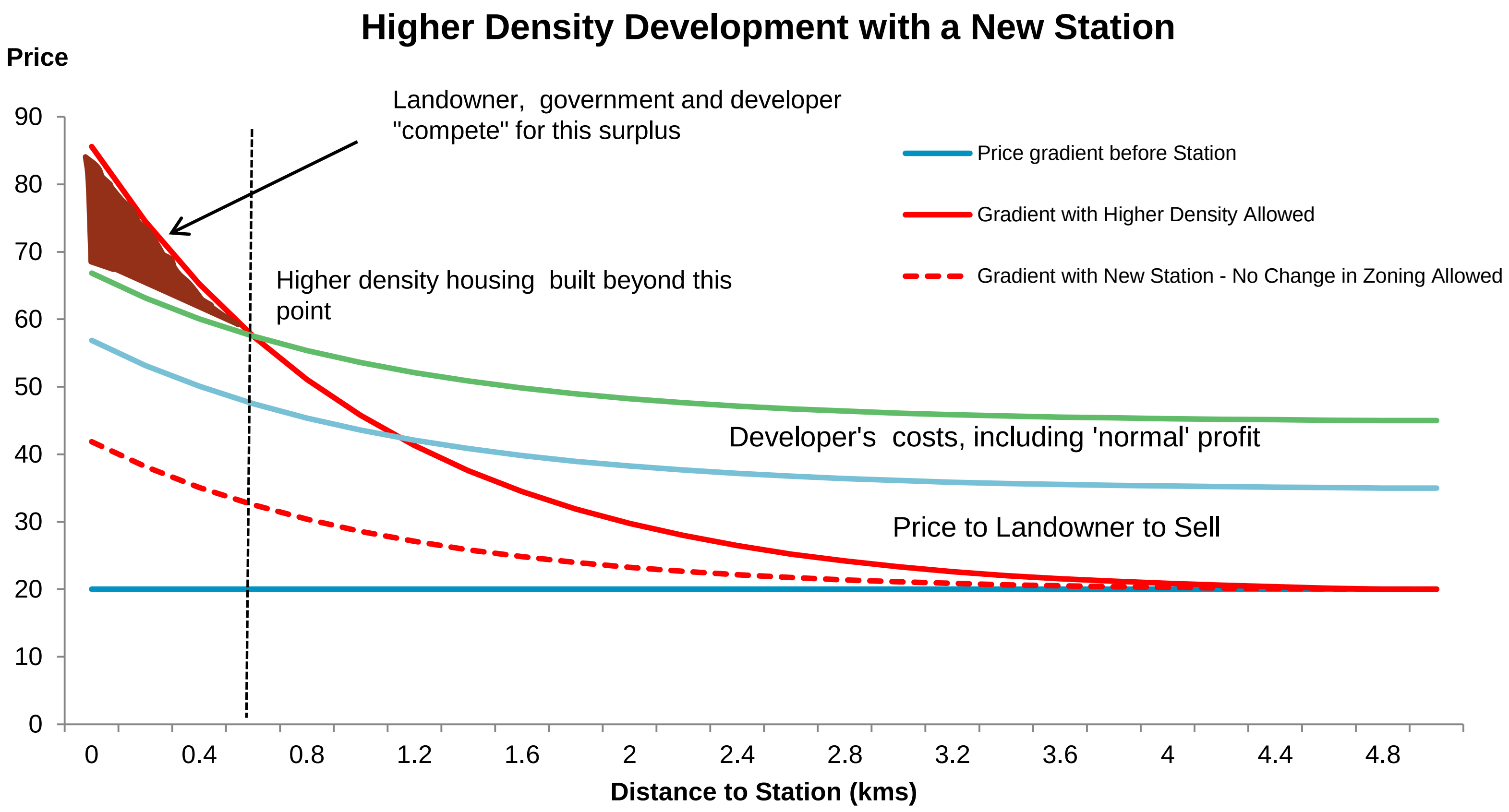
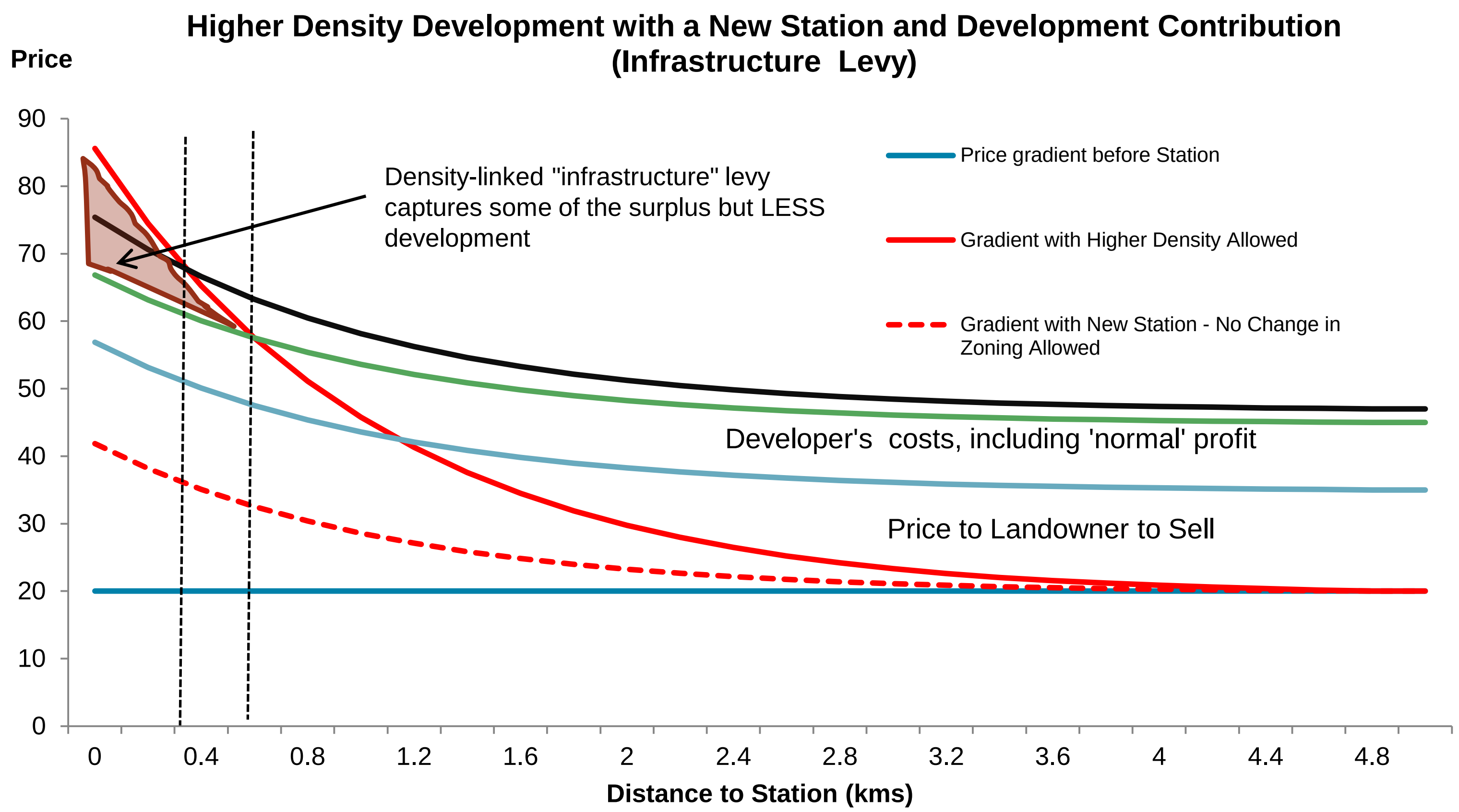


Figure 9: Development Contributions and Development



Value Capture – Betterment Taxes

1. Betterment Tax
    - Simple concept – tax on the difference between value of land in current use and value if rezoned to a higher use.
    - Also referred to as a planning gain tax.
    - An indirect capital gains tax on landowner BUT charged through the developer.
    - Parramatta LG proposing a 50% betterment tax - if it stops development,…...

2. Long History of Failure
    - UK – four attempts. In each case led to a blockage in development.
    - Sydney – betterment tax briefly circa 1970.

3. Why failed?
    - Landowners not forced to sell. Want recompense for property (land <u>plus</u> structure), cost of moving, plus some share of the gain. If not, will not sell.
    - Development process not costless. Costs will use up some of the "planning gain".
    - Final value of land a function of market conditions and how much land is approved for development by the authorities – for developers this a degree of uncertainty. Development is a risky business.

4. Henry Tax Report
    - Argued that OK in concept as tax on economic rent – but in practice, increased uncertainty, generated lengthy disputes and encouraged governments to "create economic rent" through restrictions on development.
    - (Failure by governments to recognise link between restrictions on development and housing affordability.)

Figure 10: A Betterment Tax in Theory

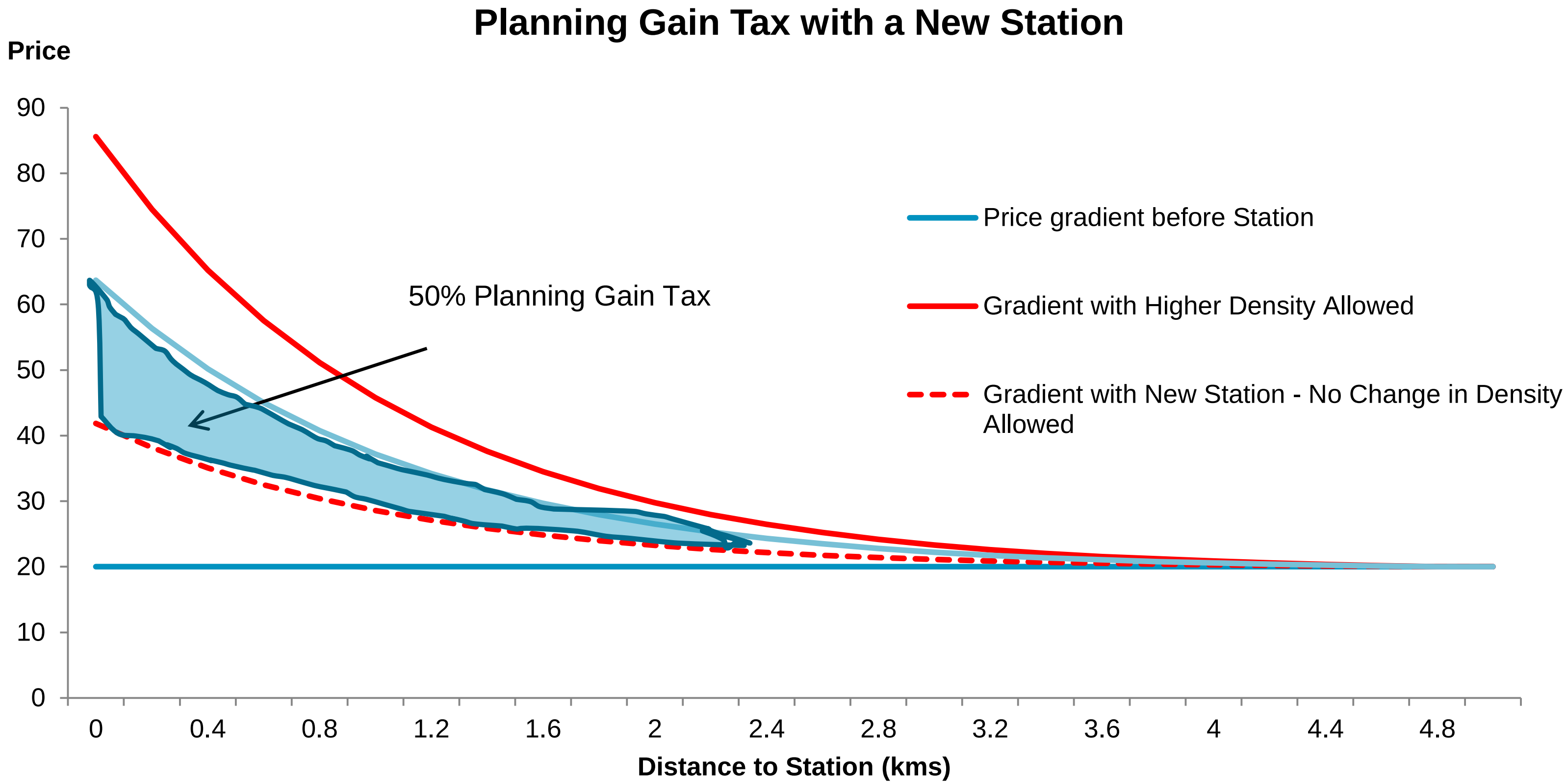


Figure 11: Betterment Tax in Practice

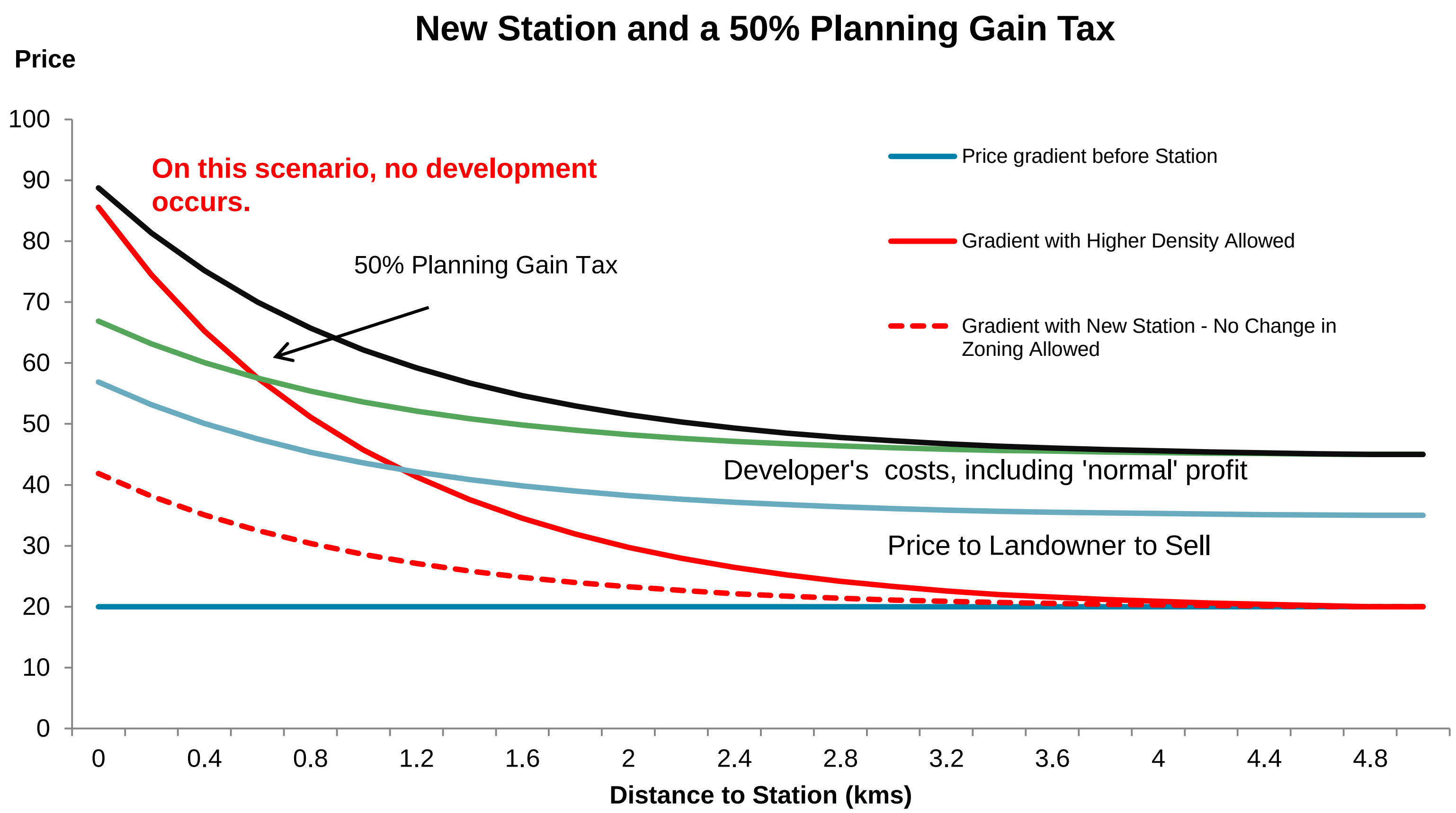


Figure 12: Betterment Tax if Costs Allowed For