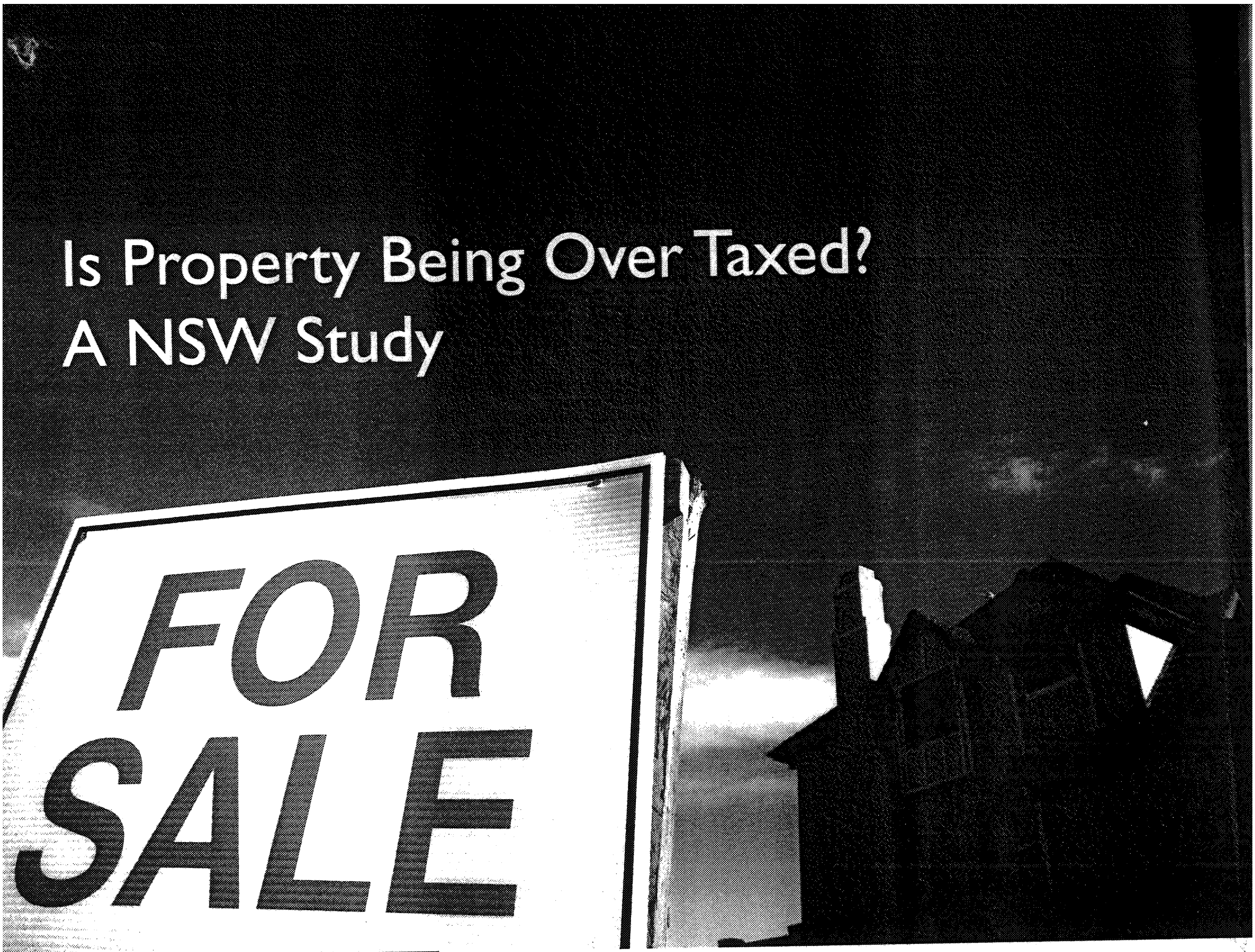
# Is Property Being Over Taxed? A NSW Study

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## Abstract

In recent times property investment in Australia as an asset class has been seen less favourably due to the implications of taxation. On the one hand there has been a consistent growth of taxation and other charges by government on property as an asset, and on the other hand there have been some tax benefits given to alternative classes of investment assets and thereby making the opportunity cost of investing in property even higher.

Whilst in its early settlement Australia had "excise and customs forms of taxes", it had no taxation on property whatsoever. Now, nearly two hundred years later there are over ten ways of taxing property in Australia, with property becoming a good source of revenue for all sectors of government.

In NSW, the revised (state) budget papers for the 2005-2006 financial year showed that property continues to be the largest sector for tax revenue for the state government. Total property taxation accounted for 33.9% or $5,362 million of total state government revenue ($15.8 billion). This included stamp duty ($3,100 million), land tax ($1,737 million), mortgage duty ($320 million), leases ($68 million), parking space levy ($44 million) and the abolished vendor transfer duty ($93 million). In addition to state taxes, property in Australia is also subject to taxation, levies and fees in several ways at the local and federal government levels.

This paper will discuss the chronology of property taxes and the more recent historical analysis of tax receipts before applying their impact on property investment and residential property development in NSW. In analysing the latter, this paper will use case studies in Sydney to show the overall level that the three tiers of government receive in a residential property development is far greater than that received by the property developer.

# Introduction

A tax can be described as "a financial charge or other levy imposed on an individual or a legal entity by a state or a functional equivalent of a state" (Wikipedia). Ricardo (1921) says "taxes are a portion of the produce of the land and labour of a country, placed at the disposal of the government; and are always ultimately paid, either from the capital, or from the revenue of the country". Historically, taxation has more or less been about since the beginning of time, with the oldest known tax levied about 6,000 years ago in Lagash, and with Egypt having the first systematic taxation, whose tax collectors were known as scribes (Avram). In Australia, taxes were introduced in the 19th century and the first taxes were a consumption type tax (Gibson, 1999).

Taxation can be used for many purposes including to raise revenue for government expenditure, for stabilising the economy, to reallocate resources and to redistribute income and wealth. Taxation can also be implemented by the various tiers of government, as is the case in Australia, where there are three tiers of government, namely federal, state and local.

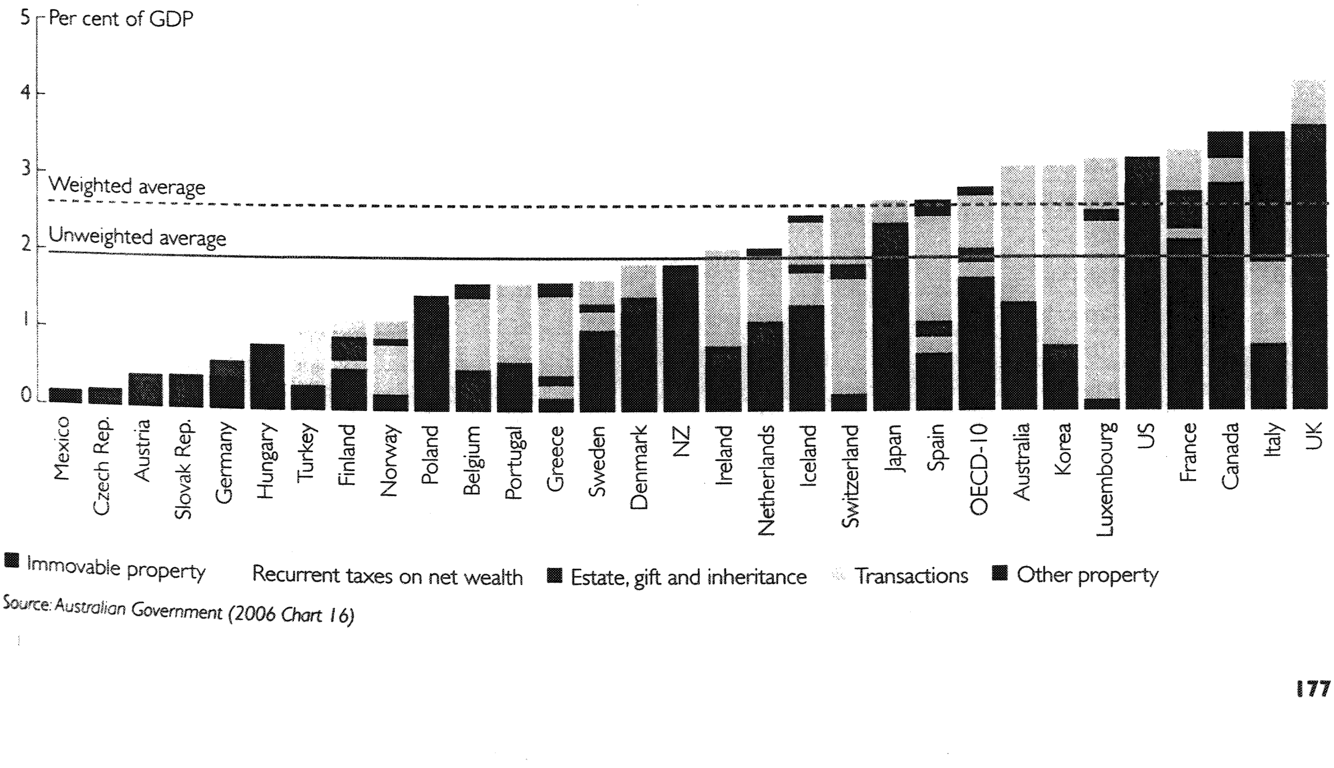
Total taxation in Australia has risen 30% to $278.5 billion in the five year period to 2004-5. But over the same period direct property taxes have increased by nearly 54.5% to $21.3 billion mainly as a result of increases in state land tax across all states (ABS, 2006). Note: this excludes taxes on property rents and capital gain, as these are assessed under the normal "income tax" category. Indeed, the Australia Government (2006) acknowledges "Australia has a comparatively high reliance on property and transaction taxes relative to the OECD-30". Figure 1 shows the various types of property taxes imposed by as a ratio of GDP for 30 OECD countries. As can be seen, Australia is above the average and ranked 8th highest in the group of 30.

Taxation has a direct influence on the property market. The economist Keynes (1973) described taxes by saying they "discriminate against "unearned" income, such as taxes on capital-profits, death-duties and the like, are as relevant as the rate of interest" to the individual. Harvey (1987) adds that a major function of the property market is to allocate land, which is a scarce resource to its most profitable use (that is, its "highest and best use") relative to other land resources.

As pointed out by Waxman (2004), all levels of government may directly or indirectly influence the decision to invest in the property market. In a study where the government did reduce its level of stamp duty for first home buyers, Costello (2006) found that the reduction had an immediate and significant impact on the Perth housing markets. Whilst on the buyer's side, Rowland (1993) says that taxation of property investment has a major impact on buyers, as the tax system does not treat all owners or all property in the same way.

The efficiency of the market is impaired by market imperfections, one of which is taxation. Theoretically in economics taxation is seen as a barrier to the workings of the market. As Warren (1994) points out without government intervention (such as taxation) the property market would operate as an efficient free market. However this does not mean the property market would otherwise operate under "perfectly competitive" condition, as property is a

**Figure 1: Property Taxes as % GDP – International Comparison (OECD-30)**




*Source: Australian Government (2006 Chart 16)* heterogenous and in reality taxation does exist in probably all economies, but its impact varies with the degree of taxation on the asset.

There are numerous writers who see property tax as the most relevant and efficient tax. Pierce (1999) argues that taxing unimproved land is one of the most efficient taxes available to the states and quotes Musgrave and Rubinfield to support his hypothesis. And of course, the proponent of a single tax on land, Henry George (1975, p.421) said "The tax upon land values is the most just and equal of all taxes. It falls upon those who receive from society a peculiar and valuable benefit, and upon them in proportion to the benefit they receive. It is the taking by the community, for the use of the community, of that value which is the creation of the community. It is the application of the common property to common uses. When all rent is taken by taxation for the needs of the community, then will the equality ordained by nature be attained."

Whether taxation on property is philosophically good or bad, taxes do have an impact in decision making for property investors and property developers. A study for the Property Council of Australia's Residential Development Council by UrbisJHD (2006) analysed the impact of all taxation and compliance costs that are included a residential development and thereby paid by purchasers of the units. They concluded that these taxes and compliance costs were as high as 35 percent of the costs for new houses and 28 per cent for new apartments.

This paper will show how taxes impact on property investment and using case studies will identify the amount of all taxes, charges and fees paid by the developer and the relevant distribution between developer and government. Whilst this paper examines taxation on property in NSW, it should be understood that all states in Australia have similar taxes with varying rates and the results would vary state by state, but not to the extent as to significantly change the findings presented in this paper.

## Taxation on Property

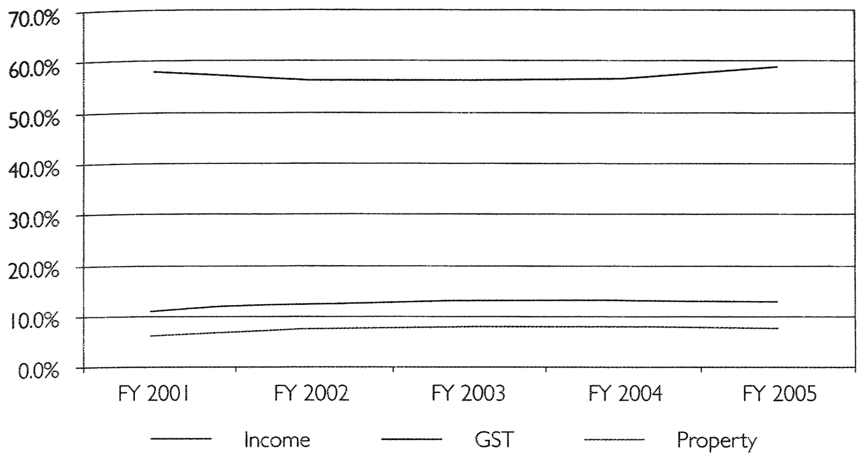
Property is an asset that is both a consumption good and a capital good and accordingly can be taxed in many ways including as a source of income, as a form of wealth (capital), and on transfer. In addition to taxes, duties and fees can be imposed by the various tiers of

**Table 1: Taxes impacting on property in NSW since Federation (1901)**

| Year | Tax | Tier of government | Abolished |
|---|---|---|---|
| By 1901 | Income Tax | All colonies | |
| | Death Duties | All State (NSW first in 1851); Federal (1910) | 1977 (Queensland) 1979 Federal. By early 1980s, all states (NSW, 1981) |
| | Gift Tax | Federal | 1979 |
| | Council Rates | Local | |
| | Land Tax | 1st in 1877 (Victoria) | |
| By 1915 all states | | BY 1915 ALL STATES | |
| 1910 | Land Tax | Federal | 1952 |
| 1915 | Income Tax | Federal/ state | 1942 for states |
| 1915 | Company Tax | Federal | |
| 1920 | Stamp Duty | State (NSW) | |
| 1942 | Income Tax | Exclusively Federal | |
| 1956 | Land Tax | State (NSW) | |
| 1974 | Property Income surcharge | Federal | 1975 (February) |
| 1970s (late) | 10% Capping Council Rates | NSW | |
| 1979 | Infrastructure charges (Section 94 Contribution) | NSW Local Councils | |
| 1985 (Sept) | Capital Gains Tax (CGT) | Federal | Modified 1999 |
| 1992 (July) | Car Parking Levy | State | |
| 1999 | Changes to CGT | Federal | |
| 2000 (July) | GST | Federal | |
| 2004 (June) | Vendor Transfer Tax | State (NSW) | 2005 (August) |

*Source: various – ATO (website), Table 2.1 (Warren, 2004), Smith (2004), Gibson (1999).*

Figure 2: Percentage of Total Taxes (FY 2001-2005)




*Source: ABS (2006) Cat 5506.0*

government. Table 1 traces the evolution of the current tax, charge and duty implications for property in Australia since Federation in 1901.

The taxes shown for the state and local tiers of government are predominantly in NSW, however in most instances, similar taxes are imposed in the other states and territories of Australia.

As can be seen in Table 1, both federal and state were applying similar taxes in the early years of federation. The year 1942 was a major turning point for taxation in Australia, the catalyst being World War II, which required a national war effort and the federal took over the taxing of income exclusively and many of the other taxes including land tax went to the states.

Up to 1942 the states had substantial financial autonomy in raising taxes and at the same time accounted for "around two thirds of all public expenditure" (Smith 2004, p.79). State governments were left with residual taxes, which are mainly narrow and according to Pierce (1999) these state taxes do not have good efficient and equity taxes because they are narrowly based taxes. He adds that the "ability of tax base to move transactions between jurisdictions magnifies the efficiency costs of State taxes, making their design more critical" (1999, p.17). The same goes for equity, as there is no significant redistribution of wealth in state and local taxes.

The unpopularity of taxes is best highlighted with two taxes, one federal and one state, which only lasted for about a year. The first was the federal tax of a "10% surcharge on 'unearned' property income", where this applied to rents, dividends and interest earned on savings introduced in 1974. The second was the NSW state's "vendor transfer tax" in 2004, which meant that anyone selling a property in NSW had to pay 2.25%, thereby the government received stamp duty from the buyer and transfer tax from the seller. Note: new property and subdivision land were exempt as were properties that sold for less than 12% of their purchase price. Both these taxes lasted for just over a year due to the large public opinion against them.

## Current Property Tax

Together with income tax and GST, property taxes make up for just over 75% of the total taxes collected by all three tiers of government. Figure 2 shows the percentage of each of these three taxes for the period 2001-2005 and as can be noted, property explicitly derives around 8% of all taxes. However, as property is also taxed as income and consumption, it is also included in part of the income and GST taxes. In addition, there are other fees and charges that are not part of the taxation calculations.

Writing about the history of taxation in Australia in the Australian Marxist Review, Gibson (1999) is critical of the government of the early nineteenth century for having "excise and customs forms of taxes" and for looking after the "land owning gentry" by not having a tax on land. Now, nearly two hundred years later, there are over ten ways of taxing property in Australia.

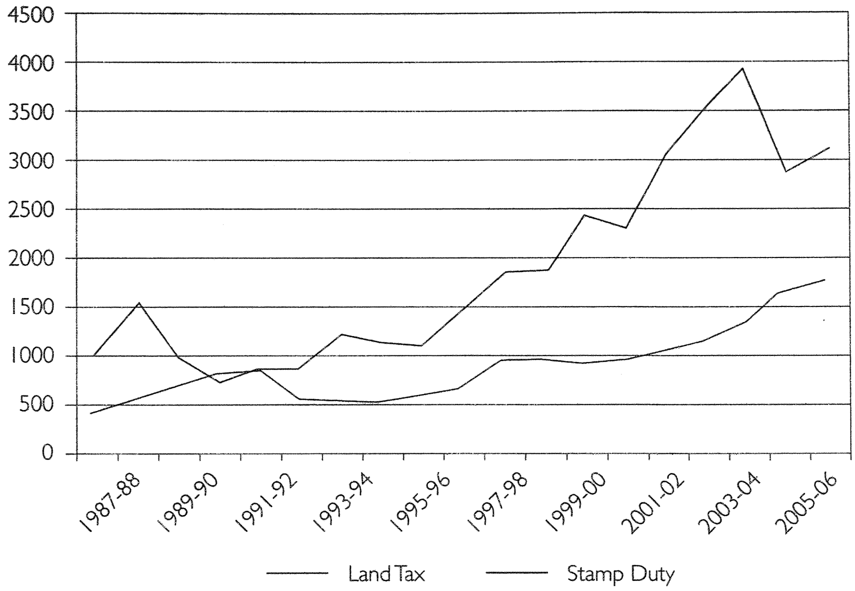
Table 2 shows the various taxes, fees and charges on property by the three tiers of government in Australia. However not all these taxes do not apply to every property transaction.

**Table 2: Taxes[a] on Property for all Levels of Government**

| | Federal | State (NSW) | Local[b] |
|---|---|---|---|
| **Income** | • Rent | | |
| **Consumption** | • GST<br>◦ Construction<br>◦ Non-residential sales and leases | • Stamp duty on mortgage[c]<br>• Stamp duty on commercial leases[d]<br>• Parking space levy[e] | • Infrastructure charges (Sect 94 contribution) |
| **Wealth** | • Capital gains tax | • Land Tax | • Council rates |
| **Transfer** | | • Stamp duty on sales | |

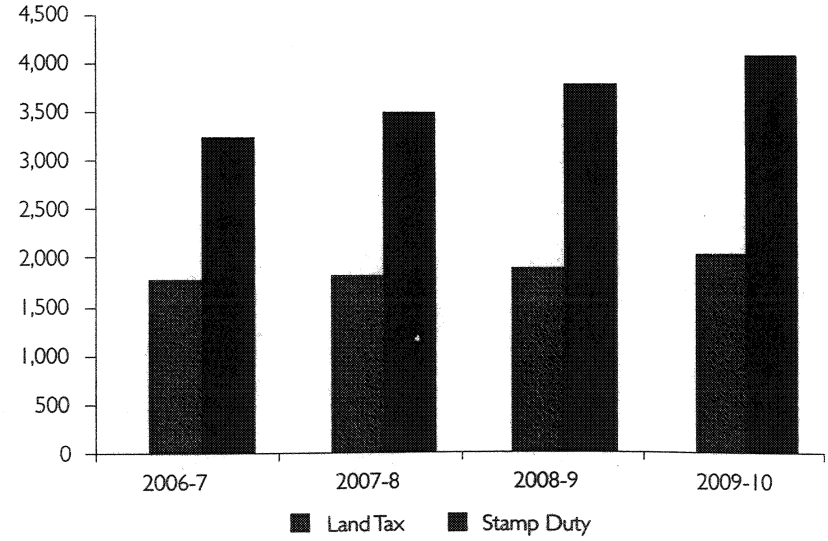
[a] Taxes implies all taxation, charges and fees.
[b] Local government also charge for development approvals and construction certificates.
[c] To be abolished 30 June 2007.
[d] To be abolished 1 January 2011.
[e] Parking space levy" is required for developments within the City of Sydney, North Sydney, Milsons Point, Bondi Junction, Chatswood, Parramatta and St Leonards business districts.

**Figure 3: NSW State Tax Revenue (1987-8 to 2005-6)**




*Source: NSW Budget Papers – 1987 to 2006*
Note: Land tax assessed for 1994 applied to all property with a land value of more than $25,000 (other than the principal place of residence).

**Figure 4: NSW State Tax revenue (Forecast: 2005-6 to 2009-10)**




*Source: NSW Budget Papers – 1987 to 2006*

Whilst Table 2 shows taxes that are imposed in NSW, other states and territories impose taxes for property transfers (i.e. stamp duty) and land taxes. Likewise, council rates are applied by all local authorities in one way or another, that is they are sometimes reclassified as charge for services provided. Finally, several states have similar infrastructure contributions for new developments, like the section 96 contributions imposed by NSW local authorities and as noted by the UrbisJHD study for the PCA (2006), "whilst some variation exists across jurisdictions ... the significant local government cost components relate to infrastructure charges".

## Federal Taxes

The federal government taxes that are imposed on all states and territories tax the property's rental income and its capital gain through the entity's income tax, which as noted from Figure 2 above, makes up about 60% of total taxes in Australia. The federal government also captures all property in varying ways under its 10% consumption tax (Goods and Services Tax or GST). For instance, commercial rental properties attract GST whist residential rent properties do not, however all property repairs (including residential owner occupiers) attract GST and the impact on a sale GST varies with the class of property and whether the "margin scheme" is employed.

## State Taxes

State taxes on property are more explicit and have been a major issue for some time, especially in NSW. Industry groups such as the Australian Property Institute, the Property Council of Australia and the Real Estate Institute of NSW have been continuously lobbying the government for an easing of the tax burden on property.

The revised NSW (state) budget papers for the 2005-2006 financial year showed that property continues to be the largest sector for tax revenue for the state government. Total property taxation accounted for 33.9% or $5,362 million of total state government revenue ($15.8 billion). This included stamp duty ($3,100 million), land tax ($1,737 million), mortgage duty ($320 million), leases ($68 million), parking space levy ($44 million) and the abolished vendor transfer duty ($93 million).

Figure 3 shows the level of both land tax and stamp duty in NSW from 1987-8 to the 2005-6. As can be seen, stamp duty's huge growth is the result of the recent housing boom particularly in the Sydney market up until 2003-4, before the correction of the market caused a fall in revenue to the government. But, land tax receipts have continued to grow, notwithstanding the market correction. In addition Figure 4 shows that forecast receipts for both stamp duty and land tax are set to increase over the next four years.

## Local Government Taxes

The main local government taxes are the council rates which apply to all land (vacant and improved) within their jurisdiction. These taxes are levied/rated on the "land value" as assessed by the NSW Valuer General's Department and each local government has its own rating scale (¢ per $), which is applied to these values to determine the annual rate.

Under state legislation in NSW, the state government "capped" the rate charged in the late 1970s. However, sometimes referred to as an infrastructure levy, under Section 94 of the NSW Environmental Planning and Assessment Act, 1979, local governments have the authority to impose a levy contribution on new developments for public amenities and services required as a consequence of development. This is known as Section 94 contribution. As a consequence of the rate capping, Section 94 contributions have become a "de-facto" way of raising funds for local governments. As noted above, similar types of infrastructure levies are imposed across other state jurisdictions.

# Taxation Benefits

## Property

Whilst the discussion above has focused on the tax burden of property, one needs to also be aware of two taxation benefits that property investors can derive. These are the negative gearing allowance and the write-off of construction costs.

Negative gearing is a direct tax benefit for property investors whose interest payments exceed the net rental income from the property. The negative amount is then deducted from the property owner's normal taxable income. The benefit is equal to the marginal rate of tax payable by the taxpayer, for instance if the taxpayer is on the highest marginal rate of 48.5% then the direct benefit of negative gearing is 48.5%.

Another benefit that exists for property investors is the loosely termed depreciation, but more specifically, the "write off of construction costs" which deducted as an outgoing for the property. This applies to new properties, extensions and improvements and if sold, depreciation allowance is carried forward to the new owners. The current rates are 4% p.a. for manufacturing and tourism buildings and all other classes of buildings receive a rate of 2.5% p.a. In all cases a property investor can get an accelerated rate for building inputs such as air conditioning. However, since 1999 the amount deducted during the "holding period" is then added "back in" when calculating any capital gains tax at the time of the sale. Thus, even this benefit has been somewhat eroded since 1999.

## Other asset classes

Other assets are also captured by taxation and likewise also attract some benefits. However in the recent era many of the other assets have also received benefits. Shares are an asset that is generally regarded as an alternate property investment. Since the late 1980s, investors in shares receive the benefit of a "fully franked" dividend if dividends are paid

Table 3: A typical 500 $m^2$ office strata unit in Sydney CBD

| | $ | $ | Applicable tax | Govt. ($) |
|---|---|---|---|---|
| **Gross Income** | | 152,280 | | |
| **Outgoings** | | | | |
| Council Rates | 6444 | | Council Rates | 6444 |
| Land Tax | 7619 | | Land Tax | 7619 |
| Car Park Levy (1) | 900 | | Car Park Levy | 900 |
| Water Rates | 900 | | | |
| Energy | 6086 | | GST | 553 |
| Insurance | 1713 | | GST | 156 |
| Air Conditioning | 3750 | | GST | 341 |
| Cleaning | 2475 | | GST | 225 |
| Fire Protection | 1504 | | GST | 137 |
| Gardening | 393 | | GST | 36 |
| Lifts & Escalators | 2445 | | GST | 222 |
| Repairs & Maintenance | 6023 | | GST | 548 |
| Security | 1101 | | GST | 100 |
| Management (5.5%) | 8375 | | GST | 761 |
| **• Total** | **49,728** | | | **18,042** |
| **• Net** | | **102,552** | | |
| **• Income Tax** | | **49,738** | **Income Tax** | **49,738** |
| **• After tax income** | | **52,814** | | |
| **• Total Govt** | | | | **67,780** |

Note: Assumes individual taxpayer on the highest marginal rate.

from "after tax earnings". That is the investor receives the full dividend free from any personal income tax or to use a property term, is equal to the "after tax" cash flow.

A more recent impact for alternative investment came from the 2006 federal budget whereby the government gave an enormous incentive to invest in superannuation. This occurred by allowing new tax benefits for investing into superannuation, especially for those aged over 55 years of age. This has resulted in a rapid growth of cash flowing into superannuation funds and in some cases the sale of property to give individuals the cash to invest. Hence, on the one hand, as demonstrated above, property taxes and fees have risen, whilst on the other hand, alternate asset investments have derived *liberal* tax benefits. This means that the *opportunity* cost of investing in property has risen.

## Methodology and Data

To demonstrate the impact of the taxes, charges and duties on property, this paper will use three methods. The first will show a typical office strata unit investment in the Sydney CBD to explain how the "return on the property" is taxed. The second will show the amount of tax the investor pays when a residential dwelling is purchased and eventually sold. Finally using eight case studies, the paper will derive the level of taxation, fees and charges paid by a property developer undertaking a development.

Data for the analysis has been given to the author by leading real estate and valuation firms on a confidential basis, and for this reason no property details will be identified. The first method uses a Sydney CBD office strata unit, the second method uses the NSW Real Estate Institute's medium prices of the nominated suburbs and the third method uses valuations undertaken by independent valuation firms, which have included the feasibility analysis of the respective development being undertaken.

### Tax on investment return

Table 3 shows a typical scenario of a 500 square metre strata office unit in the Sydney CBD, with its rental income and total expenditure. Column 3 of the table identifies the tax applicable, that is council rates, land tax and park levy, whilst all of the other outgoings (apart from water rates) are taxed under the 10% GST. The table then derives the net return of the property ($102,552), which is then taxed at the taxpayer's marginal rate. For this example, it was assumed that the taxpayer was an individual who is on the highest marginal rate.

The final column shows the amount of tax paid by the investor. The result shows that the investor receives an "after tax" income of $52,814, whilst all three tiers of government receive a total of $67,780. That is the investor is receiving 43.8% of the total income generated form the property, whilst the government is receiving 56.2%.

Once again, whilst the table applies taxes and local rates applicable to NSW, as other states in Australia have similar taxes, the results would not diminish the argument presented as the brunt of the taxes are from the federal government.

### Tax on property investment transactions

Table 4 shows the effect of the various taxes applicable to hypothetically buying a dwelling for investment in June 2000 and selling the property in December 2005. The data used is the NSW Real Estate Institute's medium prices both at

**Table 4: Houses – The effect of taxes in buying and selling an investment property.**

| | Sold Dec-05 ($) | Bought Jun-00 ($) | Cap. Gain ($) | Stamp Duty Purchase ($) | Stamp duty Mortgage ($) | CGT ($) | Total Tax ($) | % of Profit |
|---|---|---|---|---|---|---|---|---|
| Ashfield | 625,000 | 438,700 | 186,300 | 13,845 | 1,345 | 45,178 | 60,367 | 32.40% |
| Botany | 615,000 | 425,000 | 190,000 | 13,365 | 1,301 | 46,075 | 60,741 | 31.97% |
| Fairfield | 355,000 | 217,200 | 137,800 | 6,092 | 636 | 33,417 | 40,145 | 29.13% |
| Ku-ring-gai | 931,000 | 600,000 | 331,000 | 19,490 | 1,861 | 80,268 | 101,619 | 30.70% |
| Nth Sydney | 925,000 | 732,500 | 192,500 | 24,128 | 2,285 | 46,681 | 73,094 | 37.97% |
| Strathfield | 941,000 | 422,500 | 518,500 | 13,278 | 1,293 | 125,736 | 140,307 | 27.06% |
| Sydney Av. | 518,000 | 315,000 | 203,000 | 9,515 | 949 | 49,228 | 59,692 | 29.40% |

*Source: NSW REI "Property Market Focus" – June 2000 and Dec 2005.*
Table assumes individual taxpayer at the highest marginal rate.

the time of purchase (June 2000) and at the time of sale (Dec 2005) for six randomly selected suburbs together with the Sydney average. The suburbs were selected by taking every 7th suburb listed, starting from the first one for homes and the second for home units.

The analysis does not consider the holding periods discussed in the previous analysis. From Table 4, one can see the amounts paid for stamp duty on the purchase, stamp duty on the mortgage and capital gains tax on the capital gain of the property. The last column derives the percentage that the government receives from the profit (i.e. capital gain on the property).

As can be noted, the government receives on average 29.4% for a dwelling in Sydney ranging from 27.06% (Strathfield) to 37.97% (North Sydney) for the selected suburbs. In other words, nearly a third of the property's gain is absorbed by the government in one form or another. In addition to this, government would also be receiving taxes during the holding period, in the form of council rates or possibly land tax (depending on the land value) and tax on the rental income.

## Property development – case studies

To analyse the taxes in property development, eight case studies were used. These case studies are based on feasibilities undertaken for the respective sites that were used for their purchase and/or finance. The total expected gross realisation of these developments is $81 million and included in total 201 new residential apartments, 7 town houses and 2 retail shop units. All these developments are in Sydney, however as discussed for reasons of confidentiality no address or property identification is given.

Table 5 shows for each development the expected gross realisation, that is income from the sale of the property and the profit (before company tax) made by the developer. The table then identifies all the taxes, fees and charges imposed on each of the developments including the tax on profit (company tax) and derives the total tax, fees and charges for each development. Company tax, GST, stamp duty and land tax rates are the same for all developments, whilst council rates and Section 94 contribution vary depending on which local authority the developments are situated.

The table then identifies the total amount of tax paid in each of the developments, which is the same as the total the government receives. On the other side the developer receives the *bottom line* profit, that is the net "after tax" profit. In other words, this is the amount the developer gets after all expenses, including all the taxes are paid.

The last two rows show the percentage received by government and the developer in each of the respective developments. As can be noted in Table 5, the developer derives between 29.1% and 40.31% of the total whilst the three tiers of government receive between 59.69% and as high as 70.9%. In other words, assuming all the risk the developer gets less than 40% in most cases whilst the government's total for all three tiers, with no risk at all, gets around 60% as a percentage of the total.

In addition, the government receives: GST on the goods and services used in the development, taxation from all subcontractors and professional consultants employed for the development, and then stamp duty from the purchasers of the completed development. Therefore from property the government is in a *windfall* position.

To fully understand the impact of all the taxes in property development, if NSW had been an *absolute tax haven* the profit would be the figures shown for "Total" in table 6. However if there were no tax, more than likely developers would bid up the price of the land (site) as there margins would improve enormously and therefore part of the savings in tax would flow onto the seller of the site.

Several important points need to be noted which have not been taken into account in this paper. The UrbisJHD report (2006) highlighted two additional costs namely the costs due to compliance for producing new housing (such as *BASIX*) and additional costs due to excessive delays of gaining approval, which implicitly impact on "holding costs" and "interest". In addition, neither was payroll tax taken into account. Payroll tax, which has a threshold of $600,000 per financial year and a rate of 6% on wages thereafter would obviously be a factor for the larger development companies. Overall any of these would further increase the government's share and decrease the developer share respectively.

Finally, as also can be noted in Table 5, the major impact of the taxes are the GST (margin scheme) and the company tax, both of which are only levied when the property is sold. To minimise their taxes, this can lead to the practice of retaining a proportion of the development as part of the profit, in which case the developer would need to comply with the GST 5-year rule, which states that if the developer retains the property for period of 5 years or more, then the developer is required to repay any "tax credits" received in GST. However, should this practice become prevalent, it would mean fewer funds are being reinvested into future development and thereby have major implications for future supply.

**Table 5: Case Studies – Taxes on Property Development**

| | 15 Apts | 7 T/Houses | 2 Retail + 26 Apts | 19 Apts | 18 Apts | 21 Apts | 35 Apts | 67 Apts |
|---|---|---|---|---|---|---|---|---|
| **Gross Realisation** | 4,975,000 | 3,670,000 | 8,954,000 | 6,300,000 | 5,830,000 | 6,784,091 | 20,277,273 | 24,214,477 |
| **Profit** | 359,388 | 451,105 | 599,327 | 810,883 | 707,343 | 549,465 | 2,046,423 | 2,462,489 |
| **Corp Tax on Profit** | 107,817 | 135,332 | 179,798 | 243,265 | 212,203 | 164,839 | 613,927 | 738,747 |
| **Net "after tax" Profit** | 251,572 | 315,774 | 419,529 | 567,618 | 495,140 | 384,625 | 1,432,496 | 1,723,742 |
| **Taxes** | | | | | | | | |
| **Stamp Duty** | 55,615 | 37,790 | 150,490 | 73,490 | 74,315 | 63,865 | 238,490 | 219,240 |
| **Stamp Duty on Mortgage*** | 8,252 | 5,707 | 15,139 | 9,270 | 8,786 | 10,908 | 4,034 | 39,257 |
| **Council Rates** | 13,347 | 2,711 | 4,214 | 13,178 | 2,000 | 30,082 | 34,968 | 79,104 |
| **Land Tax** | 31,400 | 11,000 | 10,000 | 46,000 | 3,228 | 18,241 | 77,316 | 66,366 |
| **Sect 94** | 45,855 | 26,874 | 121,080 | 58,083 | 61,842 | 64,192 | 373,862 | 400,000 |
| **GST (margin scheme)** | 336,364 | 248,182 | 541,273 | 427,273 | 383,182 | 487,190 | 1,425,207 | 1,814,952 |
| **Corp Tax on Profit** | 107,817 | 135,332 | 179,798 | 243,265 | 212,203 | 164,839 | 613,927 | 738,747 |
| **Total Tax** | 598,650 | 467,595 | 1,021,993 | 870,559 | 745,556 | 839,318 | 2,767,803 | 3,357,666 |
| • **Developer** | 251,572 | 315,774 | 419,529 | 567,618 | 495,140 | 384,625 | 1,432,496 | 1,723,742 |
| • **Government** | 598,650 | 467,595 | 1,021,993 | 870,559 | 745,556 | 839,318 | 2,767,803 | 3,357,666 |
| **Total** | 850,221 | 783,369 | 1,441,523 | 1,438,177 | 1,240,696 | 1,223,943 | 4,200,300 | 5,081,408 |
| **Developer share (%)** | 29.59% | 40.31% | 29.10% | 39.47% | 39.91% | 31.43% | 34.10% | 33.92% |
| **Government share (%)** | 70.41% | 59.69% | 70.90% | 60.53% | 60.09% | 68.57% | 65.90% | 66.08% |

Notes:
1. The analysis assumed 50% funding for purposes of stamp duty on mortgage;
2. The developer was treated as a corporation. Had the developer been an individual entity, the tax rate on profit would be far greater, as normal individual tax rates would apply;
3. The margin scheme has been applied to assess GST on the sale of the development.

## Conclusion

As this paper has shown, property is an asset that can be taxed in many ways both in Australia and abroad. The number of taxes and other charges has now grown to ten and as noted, direct property taxes have attracted around 8% of total tax directly in Australia plus the amounts paid in the uncategorised income tax and GST receipts. Whilst this paper has presented a NSW perspective, as discussed in the paper similar property taxes and charges are imposed by other states and territories in Australia with varying rates and the results would vary state by state, but not to the extent as to significantly change the findings presented in this paper. Indeed in all methods, the major tax component was the federal company tax and GST.

The paper has demonstrated that taxation has a major impact on the cash flow derived from property; in an investment holding, in buying and selling an investment property; and in property development. In all cases, the government is receiving a substantial share, particularly in the from property development. The eight independent case studies have further demonstrated the cumulative impact of the taxes and other charges in property development. In all cases the three tiers of government are receiving around 60% (and as high as 70% in two cases) of total money generated form property development, whist the developer is receiving around 40% or less. It should also be noted, that the return to the developer is dependant upon the "expected" sales realisations. Whilst in the past Sydney residential property boom, prices may have exceed expectation, in a more stable market, expected prices may not be realised.

The purpose of the paper is not for all property taxes, charges and fees to be completely abolished, after all, taxes do have a role, as they are needed to finance the public sector (which includes infrastructure needed for property) and to a certain extent redistribute some wealth and income. However, as pointed out in the paper there are a large number of taxes in property and whilst some rates may not be excessive, cumulatively when added together they have a major impact on property developers and property investors as is demonstrated in this paper. Many of these taxes also extend to owner occupiers. Perhaps Henry George was correct after all. If there was a single tax on land only, at least there would only be one! All this begs the question, "is property being over taxed?"

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