

Press Release:

Pensioner's Rents Could Rise from \$100 to \$1600

Poor and long term residents may be evicted from their homes due to the new NSW Land Tax according to a northern NSW property owner.

“Four low income tenants, including aging pensioners, who rent from me near Byron Bay are facing eviction if they cannot pay higher rents so that I can pay the new NSW Land Tax”, he said. “I have been told of other landlords and tenants who are in the same situation and I am sure there will be many more throughout the state.”

“I have no choice but to ask the tenants to pay as I cannot afford to pay the tax myself.”

“The residents all consider the townhouses to be their permanent homes and they have been living at the property for about 7, 6, 4½ and 3 years respectively. The rent they are paying is \$125 per week each”.

“The NSW government is giving us three choices. My family must pay the new Land Tax of about \$1200, or we must pass the tax on to the residents of our property, or we must do a bit of each.”

“My family cannot afford to pay the Land Tax on our very low income,” Property owner Mr Rowan claims. “My own family net income has never been above about \$20,000, including pay for part time work, in any tax year over the past 13 years. We have had several years of about \$15000 income per year.

“The new land tax charge of 0.4%, which we have never had to pay before, is close to \$1200. Therefore, to cover the Land Tax and agents fees, we will have to raise each of the rents to about \$131 per week. An extra \$6 per person, per week. In addition we will have to add about \$3 per week to the rent to pay a special 8% council rate increase, to replace four carports and to do bathroom work.

“As the tenants will not be able to afford the increase in rent of about \$6 + \$3 per week each they will have to leave their homes and probably move 70 kilometres west to the Casino area, thus breaking the well established social and employment ties and support systems they have established in this area,” Mr Rowan said.

“In regard to our family income we do not get any of the negative gearing benefits that high income people do and, because our property was built before 1984, we do not get the 2.5% building depreciation benefit that many wealthy investors do. As my family income is only at the lowest income tax threshold we have very little opportunity to deduct the Land Tax from our income even if that is possible. This new land tax equates to an income tax, or a GST tax, increase of about 6% over all of our family income; including what is supposed to be the tax free threshold to help low income earners. If you take out the tax free threshold it is equivalent to an income tax or GST tax increase of over 8.5%. That is more than a 50% increase over the 17% income tax rate for people earning up to \$20,000 and almost a doubling of the GST.

“If the government believes we must have this new Land Tax then it should be introduced fairly as was the Capital Gains Tax in 1984. The new Land Tax should only apply to new property purchases and not to properties currently owned. That is the fair way to do it. The rules should not be changed in the middle of the game.”

According to Mr Rowan Real Estate Agent estimates of the market rent for each of his family's four 2 bedroom townhouses is \$140 per week.

"We have kept the rents low due to the inability of the tenants to pay a higher rent," he said. "The rent has only increased from \$100 to \$125 over the past 14 years. But the NSW Government seems to think we should be charging each tenant \$1,600 rent per week. An impossible, cruel and ridiculous figure"

The government's assessment, made by the Valuer General, is that over the past 14 years the land valuation of the property has risen from \$18,000 in November, 1990, when it was purchased by Mr Rowan's family, to \$285,000 now, in April 2004.

"That is an irrational land value increase of more than 16 times," Mr Rowan asserts.

"As I said the rent has only increased by 1.25 times. If the rent had increased by 16 times, as the VG valuation has, then the rent would now be an absurd \$1,600 per week for each resident.

According to Mr Rowan the low income earners and the poor are being slugged with higher taxes while high income earners are having their taxes reduced by Governments.

"High income earners, who own investment property, get almost half of the land tax back as an income tax refund. Further, this new land tax favours high income earners; it has even been reduced for many of them to a lower amount than they paid in the past. Now the poor and low income earners are being slugged to pay for that reduction. Further, it tears a rung off the ladder of opportunity for low income earners and the poor. In addition high income earners can also take advantage of negative gearing to get even bigger tax refunds. It just isn't fair," he said.

Mr Rowan is opposed to Land Tax for rich or poor because it is, he claims, levied on irrational land values and not on income.

"Land Tax in itself is a very unfair form of taxation particularly for low income earners. As Land tax is levied on the 'value' of the property it takes no account of the cash flow that is generated by the property.

"In the future the Valuer General's valuation could increase by 16 times as it has in our present case, while the cashflow from the property could increase by only 25% as it has in our present case. The land tax would then increase by 1600%. The Land Tax would then be \$19,200 and the rent income \$32,500. After paying for Council Rates and Land Tax there would be less than \$10,000 remaining for maintenance and expenses such as bank interest. My family would then be left with a property that is virtually worthless as an income producing investment. The government would then have complete control to take the property off us due to non payment of taxes which we could not afford.

"The lower a person's income the less they can afford to pay land tax. It is that simple. Land Tax comes straight out of cash flow and if a property is not available for letting because of the need to do repairs or because of an economic downturn and nobody wants to rent it then a low income owner has to go without something to pay the tax. My family might have to sell our \$750 value 1985 car, or our 27 year old TV, to pay part of the tax before we cut back on food. We do not have any real luxuries to cut back on. It is difficult enough owning a car in the condition ours is but if we have to sell it our living difficulties will be multiplied.

“It was always intended that our property would be a form of superannuation for our family,” Mr Rowan said, “But this new tax considerably reduces the income and greatly raises the risk of economic loss if we have to pay the tax in the event of an economic downturn when the rental income might be reduced. Placed in this position some people would wonder if it is all worth it, considering the problems that can be involved in maintaining an older building and the problems and losses that can be caused by tenants. Some people might feel they are better off selling out to avoid any more loss or risk and go on the pension as soon as possible.

“My family is a member of the income group that was worst affected by the introduction of the GST. Our income was reduced by the GST. This Land Tax further disadvantages us. High income earners benefited from the GST and high income earners are benefiting from the new Land Tax as it is being reduced for them if they own high value investment property. Because Land Tax is not levied according to income, then it is fairest, if we must have it, to levy it on high income earners only; because they are most likely to have a cash flow that exceeds their everyday living needs and they have extra income with which they can pay the tax. But it is better not to have Land Tax at all.

Peter Rowan.